



# **ALABAMA SECURITIES COMMISSION**

## **Annual Report** **Fiscal Year Ending September 30, 2017**

**The mission of the Alabama Securities Commission  
is to protect investors from securities fraud and  
preserve legitimate capital markets in Alabama.**

# ALABAMA SECURITIES COMMISSION (ASC)

## ANNUAL REPORT FY 2017

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# MISSION & OVERVIEW



## MISSION

**The mission of the  
Alabama Securities  
Commission (ASC)  
is to protect  
investors from  
securities fraud and  
preserve legitimate  
capital markets in  
Alabama.**

The Alabama Securities Commission (ASC) endeavors to protect Alabama citizens from deceptive and illegal practices associated with offers, sales and purchases of securities in Alabama. In order to meet this goal, the ASC carries out four important functions: registration, auditing, enforcement and education, and strives to continually refine and strengthen its role as a staunch advocate for Alabama's "main street" investors. By protecting Alabama's investors the ASC preserves and encourages legitimate capital markets in the state.

The ASC's efforts to shape investor protection legislation at both the state and national levels help sustain investor confidence by promoting efficient regulatory policy, controlling fraudulent practices through stringent enforcement and promoting financial literacy, investor education and fraud prevention awareness to all Alabama citizens.

The ASC primarily administers and enforces the Alabama Securities Act, Alabama Monetary Transmission Act, and Pre-Issuance Procedures for Industrial Revenues Bonds. These laws empower the ASC to exercise jurisdiction over securities offered, issued and sold in Alabama or to Alabama residents, including the registration of certain securities, the granting of specific exemptions from registration of securities and securities transactions and the denial, suspension and revocation of registration or licensing. The ASC helps foster legitimate capital opportunities for businesses and industries throughout Alabama in the following ways:

- By requiring the registration of securities prior to their public sale;
- By providing a series of exemptions to cover situations where, because of the nature of the security or the characteristics of the transaction, registration is not deemed to be necessary in the public interest or for the protection of investors;
- By requiring the registration of dealers, agents, investment advisors, investment advisor representatives and by regulating their activities;
- By providing auditing and examinations of registrants;
- By providing civil remedies for violations of the Act; and
- By providing administrative, civil and criminal penalties for those who participate in the unlawful or fraudulent sale of securities.

The Alabama Securities Commission is committed to providing the strongest possible investor protection and will continue to apply all its resources and expertise to ensure fair and transparent markets for Alabama investors and to continue to aggressively enforce applicable laws for the protection of investors as the source of capital for the creation and continued development of Alabama's capital markets.

# ASC STATUTORY AUTHORITY

The Commission is responsible for administering and enforcing the laws of State of Alabama relative to:

Sec. 8-6-1, *et seq.* - Securities Act No. 740  
(1969 Regular Session) and as amended

Sec. 8-6-110, *et seq.* - Industrial Revenue Bonds Act  
No. 586 (1978 Regular Session)

**The Sale of Checks Act (Section 8 Chapter 7) was replaced by the Alabama Monetary Transmission Act (Section 8 Chapter 7a) Effective August 1, 2017 (See more information on page 19 and at [www.asc.alabama.gov](http://www.asc.alabama.gov)).**

The Commission's authority extends to **any activity involving the issuance, offering, sale, and other related transactions involving securities made within, into, or from the State of Alabama.**

The purpose of the Securities Act is to protect investors from fraud and to preserve legitimate capital markets. The accomplishment of these objectives is legislatively provided for in five different ways by:

Requiring the registration or the specific exemption from registration of securities prior to their public or private offer of sale;

Requiring the licensing of Broker/Dealers and salesmen and regulation of their activities;

Requiring the licensing of Investment Advisers and Investment Adviser Representatives and regulation of their activities;

Providing certain civil remedies to purchasers of securities sold in violation of the Acts; and

Providing administrative, civil, and criminal penalties for those who participate in the unlawful sale of securities.

The Commission regulates and enforces the laws relating to the transmission of monetary value. This includes the transmission of cybercurrency such as bitcoin, the regulation of money transmission methods such as stored value cards, the electronic transmission of money, bill payment services as well as more traditional transmission methods such as money orders.

Through its legislative mandate, the Commission and its staff assist Alabama businesses during capital formation and protects Alabama issuers, businesses, and residents from fraudulent securities transactions. The Commission does not recommend or endorse broker/dealer firms, salesmen, investment adviser firms, representatives, or the purchase of any securities, nor does it pass upon the accuracy or completeness of any prospectus, private placement memorandum or sales literature.



# ASC PURPOSE

The Alabama Securities Commission (the “Commission”) administers and enforces the following Alabama statutes: The Alabama Securities Act, including the Alabama Monetary Transmission Act and the Pre-Issuance Procedures for Industrial Revenue Bonds. The Commission is comprised of seven Commissioners, consisting of the Attorney General, the Superintendent of Banks, the Commissioner of Insurance, two State Bar Association licensed attorneys and two Certified Public Accountants.

The Commission is functionally divided into the following seven divisions: (1) Directorate; (2) Legal; (3) Accounting/Personnel; (4) Data Systems; (5) Education and Public Affairs; (6) Enforcement; (7) Licensed and Registration/Audits and Examinations.

The function of the Commission and its staff is to regulate the sale of securities and the securities industry in Alabama. The Commission’s jurisdiction encompasses all securities offered, issued or sold within, into, or from Alabama or to Alabama residents. The Securities Act requires the registration of all securities offered for sale in Alabama unless there is an applicable exemption. The Securities Act provides a series of exemptions to cover situations where, because of the nature of the security or the characteristics of the transaction, registration is not deemed to be necessary in the public interest or for the protection of investors. The ASC retains anti-fraud authority with respect to securities exempt from registration.

With regard to the responsibility for regulating the securities industry in Alabama, the Commission maintains as its primary objective the encouragement of investor protection and confidence in the investment industry. In this respect, all persons who propose to act as broker-dealers, agents (registered representatives), investment advisers or associated persons (investment adviser representatives) must be licensed by the Commission prior to engaging in such activities.

The Alabama Monetary Transmission Act codifies a broad definition of monetary transmissions to include “virtual” currency such as Bitcoin, and specifies records that licensees are required to maintain. The Act grants the ASC administrative authority to audit/review the records of any licensee, including individuals, officers, directors and other persons who may control the actions of the licensee. Additionally, licensees will be required to maintain a surety bond to cover potential compensation to any person damaged by any failure to comply with the law or by any breach of conditions. The law also codifies the ASC’s authority and powers to regulate money transmitters, including administrative and civil causes for action and establishes criminal penalties for violation of the Act.

The Commission’s functions also include pre-clearance of industrial revenue bonds, the investigations of alleged violations of the provisions of the above-referenced statutes together with the initiation of administrative, civil and criminal proceedings and case referrals to other agencies where appropriate.

The primary purposes of the regulatory responsibilities and objectives described above is to protect the public from fraudulent practices in connection with the offer, sale, and purchase of securities in Alabama and to promote the financing of legitimate business and industry in the state.

# ASC COMMISSION

## ASC COMMISSION

The Alabama Securities Commission members are the Attorney General, the State Superintendent of Banks, the State Insurance Commissioner (by virtue of their offices). Also, two attorneys and two certified public accountants are appointed by the Governor from lists of nominees submitted by the Alabama Bar Association and the Alabama Society of Certified Public Accountants and confirmed by the Senate. The Commission maintains oversight, provides policy guidance and establishes rules for the performance of its functions and the accomplishment of its purpose. The members of the Commission during Fiscal Year 2017 were:

### **ACTIVE**

JAMES L. HART, Chairman	Certified Public Accountant Birmingham, Alabama	12/10 - Present
STEVE T. MARSHALL Member	Attorney General Montgomery, Alabama	02/17 - Present
MIKE HILL, Member	Superintendent of Banking Montgomery, Alabama	07/16 - Present
JIM L. RIDLING, Member	Commissioner of Insurance Montgomery, Alabama	09/08 - Present
MARLENE M. McCain Member	Certified Public Accountant Birmingham, Alabama	05/12 - Present
S. DAGNAL ROWE, SR., Member	Attorney at Law Huntsville, Alabama	08/13 - Present
R. AUSTIN HUFFAKER, Jr. Member	Attorney at Law Montgomery, Alabama	04/16 - Present

### **PAST**

LUTHER STRANGE Member	Attorney General Montgomery, Alabama	01/11 - 02/17
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# ASC PERSONNEL (FY 2017)

<p><b>Directorate</b>  Joseph P. Borg, Director  Edwin L. Reed, Deputy Director, Administration  Stephen P. Feaga, Dep. Director, Enf. and Litigation  Amanda L. Senn, General Counsel  Christie A. Rhodes, Executive Assistant III  Leighann T. Croyle, Admin. Support Asst. II</p> <p><b>Legal Division</b>  Gregory M. Biggs, Attorney IV  David B. Byrne, Jr., Attorney III  James B. Eubank, Attorney III  Leslie D. Worrell, Attorney III  Lisa M. Ray, Attorney I/II  Kimathy J. Booher, Paralegal  Shana T. Proctor, Paralegal</p> <p><b>Accounting/Personnel Division</b>  Renee S. Sanders, Accounting Director I  Kevin A. Jones, Accountant  Gwendolyn Lover, Account Clerk  Martha J. Thomas, Admin. Support Asst. III</p> <p><b>Data Systems Division</b>  David E. Gilmore, IT Systems Specialist</p> <p><b>Education and Public Affairs Division</b>  Daniel G. Lord, Training Specialist II  Clint L. Niemeyer, Public Information Specialist  Faith D. Feaga, Student Aide</p>	<p><b>Enforcement Division</b>  Ricky G. Locklar, Sr. Special Agent  Manager/Enforcement</p> <p>Michael L. Gantt, Sr. Special Agent  Manager/Administrative</p> <p>Paul A. Gugliotta, Special Agent  Charles G. Harrison, Special Agent  Charles R. James, Jr., Special Agent  Steven R. Jones, Special Agent  Kimberly S. Lewis, Special Agent  Mark L. Mitchell, Special Agent  Rossie L. Peters, Special Agent  Robert W. Sharp, Special Agent  Charles A. Traywick, Special Agent  Michael D. Wilkerson, Special Agent  Anita F. Wilkerson, Executive Secretary  Kimberlee A. Hinson, Admin. Support Asst. III  Carrie L. Springer, Admin. Support Asst. III  Heather H. Grimes, Admin Support Asst. II  Kathy R. Lassiter, Admin. Support Asst. II</p>				
<p style="text-align: center;"><b>Registration Division</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 5px;"> <p>Lisa M. Tolar, Manager  Department of Licensing and Registration</p> </td><td style="width: 50%; padding: 5px;"> <p>Rena H. Davis, Manager  Department of Auditing and Examinations</p> </td></tr> <tr> <td style="width: 50%; padding: 5px;"> <p>Marvernitha B. Kyles, Securities Analyst Supvr.  Tina M. Tell, Securities Analyst Supervisor  Timothy W. Adams, Securities Analyst, Senior  Ashlee B. Gould, Securities Analyst, Senior  LaShonda D. Moultrie, Securities Analyst, Sr.  Sandra D. Smith, Securities Analyst, Senior  Sonya C. Daniels, ASA II  Mary G. Rollan, ASA III  Patricia J. Wilson, ASA III  Mary C. Sanders, Clerical Aide</p> </td><td style="width: 50%; padding: 5px;"> <p>Spencer D. Lee, Securities Analyst Supervisor  Marilyn D. Bullard, Securities Analyst, Senior  Lauren W. Hitt, Securities Analyst, Senior  Joshua M. Lacy, Securities Analyst, Senior  David R. Strickland, Securities Analyst  Sarah J. Pike, ASA II  Emily C. Tolar, Clerical Aide  Gage A. Pregno, Clerical Aide</p> </td></tr> </table>		<p>Lisa M. Tolar, Manager  Department of Licensing and Registration</p>	<p>Rena H. Davis, Manager  Department of Auditing and Examinations</p>	<p>Marvernitha B. Kyles, Securities Analyst Supvr.  Tina M. Tell, Securities Analyst Supervisor  Timothy W. Adams, Securities Analyst, Senior  Ashlee B. Gould, Securities Analyst, Senior  LaShonda D. Moultrie, Securities Analyst, Sr.  Sandra D. Smith, Securities Analyst, Senior  Sonya C. Daniels, ASA II  Mary G. Rollan, ASA III  Patricia J. Wilson, ASA III  Mary C. Sanders, Clerical Aide</p>	<p>Spencer D. Lee, Securities Analyst Supervisor  Marilyn D. Bullard, Securities Analyst, Senior  Lauren W. Hitt, Securities Analyst, Senior  Joshua M. Lacy, Securities Analyst, Senior  David R. Strickland, Securities Analyst  Sarah J. Pike, ASA II  Emily C. Tolar, Clerical Aide  Gage A. Pregno, Clerical Aide</p>
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# ALABAMA SECURITIES COMMISSION REGULATORY SERVICES PROGRAM

## APPROPRIATION DESCRIPTION

The Commission is self-funding and self-sustaining; assists Alabama businesses during capital formation; and protects Alabama's issuers, businesses and residents from fraudulent securities transactions. The Commission does not recommend or endorse broker-dealer firms, salesmen, investment adviser firms, representatives or the purchase of any securities; nor does it pass upon the accuracy or completeness of any prospectus, private placement memorandum or sales literature. The Commission does, however, bring administrative, civil, and criminal actions including receiverships, the issuance of warrants, preparation of indictments, and conducts trials when necessary. Extensive examinations and investigations are conducted by Commission personnel, including multi-jurisdictional investigations and joint cases with federal, state and local law enforcement or regulatory agencies.

FUND 374: The Alabama Monetary Transmission Act. The Act codifies a broad definition of monetary transmissions to include "virtual" currency such as Bitcoin, and specifies records that licensees are required to maintain. The Act grants the ASC administrative authority to audit/review the records of any licensee, including individuals, officers, directors and other persons who may control the actions of the licensee. Additionally, licensees will be required to maintain a surety bond to cover potential compensation to any person damaged by any failure to comply with the law or by any breach of conditions. The law also codifies the ASC's authority and powers to regulate money transmitters, including administrative and civil causes of action and establishes criminal penalties for violation of the Act.

FUND 375: Securities Commission Fund. The Commission is responsible for administering and enforcing laws of the State of Alabama relative to the Alabama Securities Act, § 8-6-1, *et seq.*, Securities Act No. 740. The purpose of the Act is to protect investors from fraud and to preserve legitimate capital markets. These objectives are accomplished legislatively by: (1) requiring the registration or the specific exemption from registration of securities prior to their public or private offer of sale; (2) requiring the licensing of dealers, agents, investment advisers and investment adviser representatives and regulating their activities; (3) requiring Reg. D filing notices under the Securities Acts of 1933; (4) requiring the filing of mutual funds and certain other specialized securities offerings through exemption; and, (5) providing civil remedies for violations of the Act and providing administrative, civil and criminal penalties for those who violate the Act.

FUND 376: Industrial Revenue Bond Notification Fund. The Alabama Securities Commission acts as a pre-clearance check on certain industrial revenue bonds as provided for under Section 8-6-110, *et seq.*, Industrial Revenue Bonds Act No. 586. The Commission reviews and analyzes filings made prior to sale of said bonds to investors and issues appropriate No Stop Orders.

NOTE: The Commission has generated significant revenues for the General Fund (see chart at bottom of page 12).

<b>Notification</b>	Generally available for seasoned issuers and requires limited disclosure.	\$40 filing fee + registration fee of 1/10 of 1% of the aggregate offering price of the securities offered in this state. Registration fee not to exceed \$1,500 nor be less than \$100	§ 8-6-8(d) Code of Alabama, 1975
<b>Coordination</b>	Registered statement has been filed in connection with the same offering. State filing in conjunction with SEC filing.	\$40 filing fee + registration fee of 1/10 of 1% of the aggregate offering price of the securities offered in this state. Registration fee not to exceed \$1500 nor be less than \$100	§ 8-6-8(d) Code of Alabama, 1975
<b>Qualification</b>	Any other security.	\$40 filing fee + registration fee of 1/10 of 1% of the aggregate offering price of the securities offered in this state. Registration fee not to exceed \$1500 nor be less than \$100	§ 8-6-8(d) Code of Alabama, 1975
<b>Open End Management Company</b>	Face amount certificate company or Unit Investment Trust registering indefinite amount	\$100 filing fee + \$1,500 registration fee	§8-6-8(d) Code of Alabama, 1975
<b>Exemption</b>	Securities not required to be registered by virtue of exemption under federal, state, or provincial statutes.		
<b>Limited Offerings</b>	(1) Offerings conducted solely in this state to residents of this state	\$150	§ 8-6-11(a)(14)n, Code of Alabama, 1975
	(2) Regulation D filing under Rules 505 and 506	\$300	§ 8-6-11(c), Code of Alabama, 1975 Commission Rule 830-X-6-.11(1)(a)(3)(iv)
	(3) Expansion Order filing to increase the number of purchasers in a limited offering that has already been exempted from registration.	\$300	§ 8-6-11(c), Code of Alabama, 1975
	(4) For sale up to 25 Alabama purchasers in 12 months.	\$300	§ 8-6-11(a)(9), Code of Alabama, 1975 Commission Rule 830-X-6-.12(1)(d)(iv)
	Extension of the term up to 12 months	\$300	

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ASC  
FEE  
SCHEDULE

	(5) Regulation A Tier I and Tier II	\$40 filing fee + variable fee of 1/10 of 1% of the aggregate offering price of the securities offered in this state. Variable fee not to exceed \$1500 nor be less than \$100	§ 8-6-8(d) Code of Alabama, 1975  (Registration required pre-JOBS Act)
	(6) Federal Crowdfunding Offerings	\$40 filing fee + variable fee of 1/10 of 1% of the aggregate offering price of the securities offered in this state. Variable fee not to exceed \$1500 nor be less than \$100	§ 8-6-8(d) Code of Alabama, 1975 Commission Rule 830-X-6-.13(1)(a)3
<b>Mutual Fund Exemption</b>	Registration exemptions for Open-End Management Investment Company:		§ 8-6-10(11)(a)(2), Code of Alabama, 1975
	Total assets less than or equal to \$25 million:	\$350	
	Total assets greater than \$25 million, less than \$100 million:	\$700	§ 8-6-10(11)(a)(2), Code of Alabama, 1975
	Total assets equal to or greater than \$100 million:	\$1,200	
	Unit Investment Trusts:	\$200	
<b>IDB</b>	Industrial Revenue Bonds are municipal bonds issued for purpose of constructing facilities.	1/20 of 1% of principal amount of described bonds. No less than \$25, but not to exceed \$1,000	§ 8-6-115, Code of Alabama, 1975
<b>Sale of Checks</b>  <b>The Alabama Monetary Transmission Act replaced the Sale of Checks Act on August 1, 2017.</b>	Sale of any check, draft, money order, or other instrument for transmission or payment of money.		
	(1) Investigative fee for initial application	\$250	§ 8-7-6, Code of Alabama, 1975
	(2) Registration fee for principal office	\$250	
	(3) Additional location and agents in the state	\$5 per office not to exceed \$250. (Max registration fee \$500, exclusive of investigative fee)	§ 8-7-9, Code of Alabama, 1975
<b>Opinions</b>	Interpretations	\$150	§ 8-6-29, Code of Alabama, 1975
<b>Agent</b>	Any individual, other than a dealer, who represents a dealer or issuer in effecting or attempting to effect sales of securities.	\$60	§ 8-6-3(h), Code of Alabama, 1975

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<b>Dealer</b>	Any person engaged in the business of effecting transactions in securities for the account of others or for his own account.	\$250	§ 8-6-3(h), Code of Alabama, 1975
<b>Investment Adviser</b>	Any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities, or who, for compensation and as a part of a regular business, issues or promulgates analyses or reports concerning securities.	\$250	§ 8-6-3(h), Code of Alabama, 1975
<b>Investment Adviser Representative</b>	Any partner, officer, director of or other individual employed by or associated with an investment adviser, except clerical or ministerial personnel, who (a) makes recommendations or renders advice regarding securities; (b) manages accounts or portfolios of clients; (c) determines which recommendations or advice regarding securities should be given; (d) solicits, offers or negotiates for the sale of or sells investment advisory services; and (e) supervises employees who perform any of the foregoing.	\$60	§ 8-6-3(h), Code of Alabama, 1975
<b>Administrative Assessment</b>	Fee imposed upon any person who violates any provision of the article or rule or order issued under the article.	Not to exceed \$5,000 for each act or omission. Total assessment not to exceed \$50,000	§ 8-6-19(j)(2), Code of Alabama, 1975
<b>Investigative Examinations</b>	Investigative costs for examinations of violations of any provision of the article or violations of any rule.	Investigation costs	§ 8-6-19(k)(1), Code of Alabama, 1975

## ASC Statistical Summary from FY 2017

# ASC STATISTICS

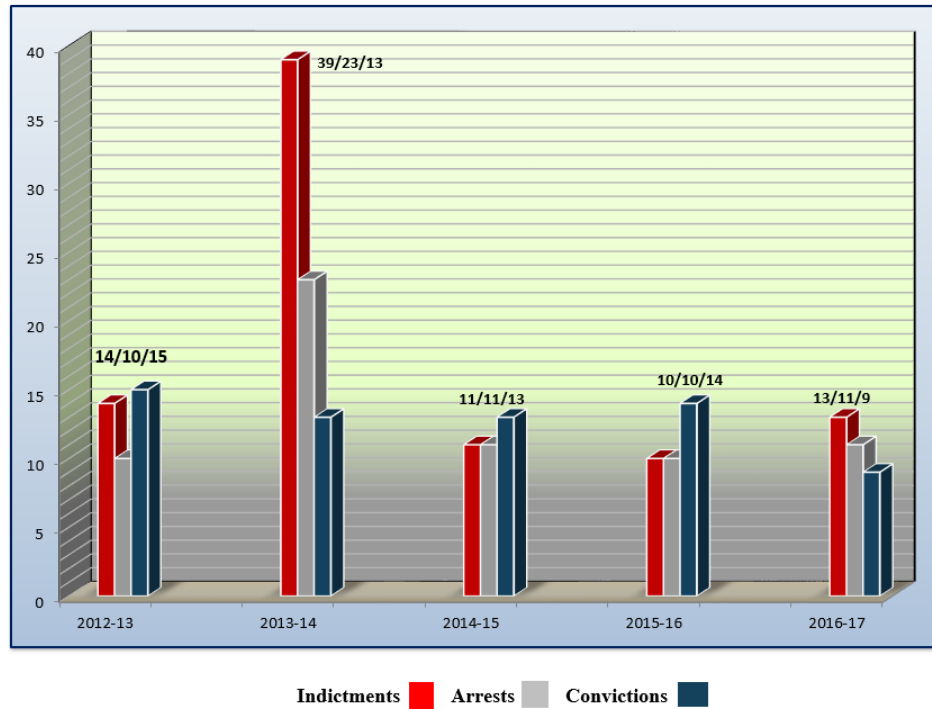
- ▶ ASC total staff - **58** (includes 9 attorneys, 12 special agents, and 13 securities analysts)
- ▶ Registrations and exemptions issued - **167,756**
- ▶ Onsite examinations/audits - **58**
- ▶ Complaints and corporate inquiries received - **204**
- ▶ Industrial Revenue Bonds reviewed - **\$41,962,335.35**
- ▶ Administrative Orders issued - **9**
- ▶ Administrative Order respondents - **31**
- ▶ Restitution ordered to victims - **\$2,638,750**
- ▶ Public warnings issued - **2**
- ▶ Indictments - **13**
- ▶ Convictions - **9**
- ▶ Arrests made - **11**
- ▶ Years of incarceration ordered - **24**
- ▶ Individuals awaiting grand jury action, arrest or trial - **35**
- ▶ Contributed to State General Fund - **\$ 12,459,184**
- ▶ Educational seminars on wise and safe investing - **75**
- ▶ Alabamians receiving educational presentations – **7069**

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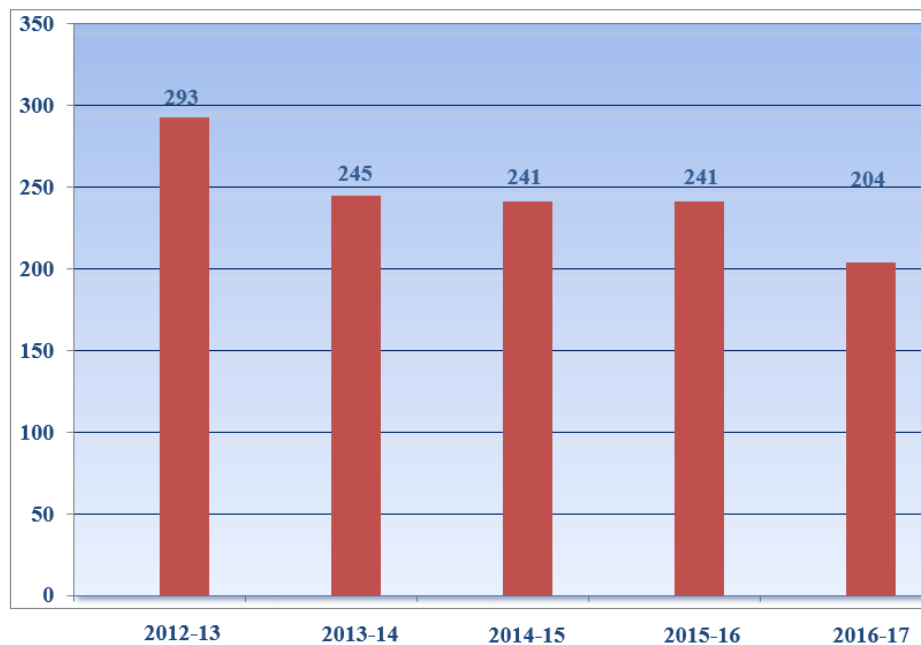


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### Indictments, Arrests and Convictions Fiscal Years 2012-13 to 2016-17



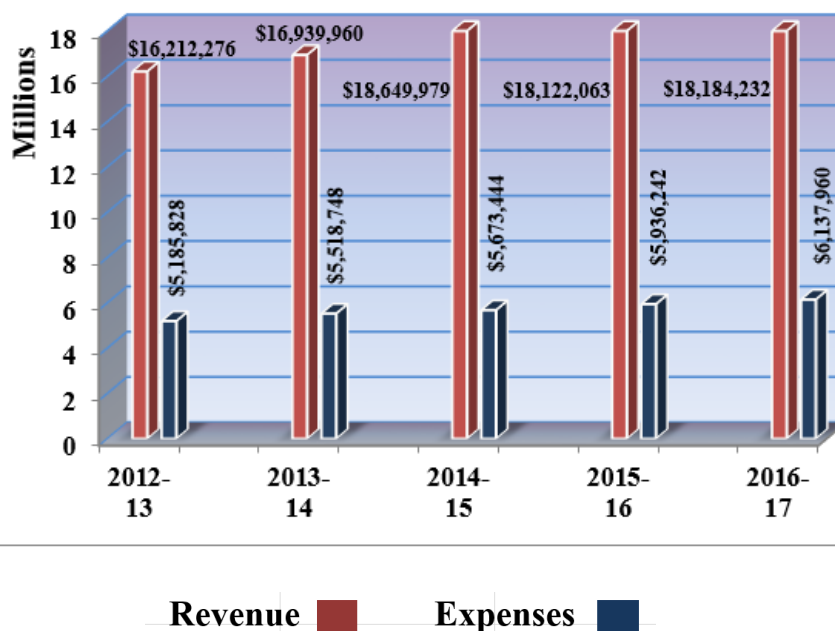
### Complaints and Corporate Inquiries Fiscal Years 2012-13 to 2016-17



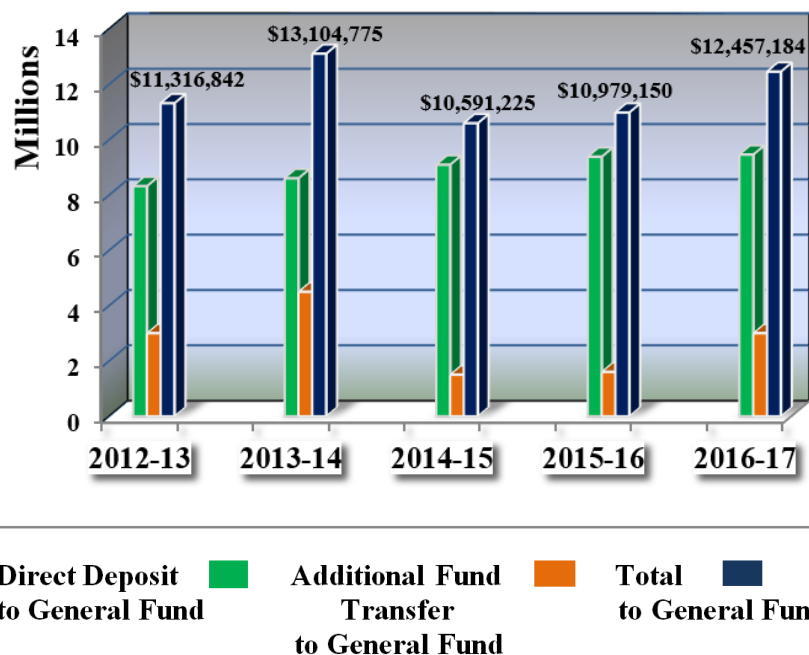
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### Combined Revenue and Operational Expenses Fiscal Years 2012-13 to 2016-17



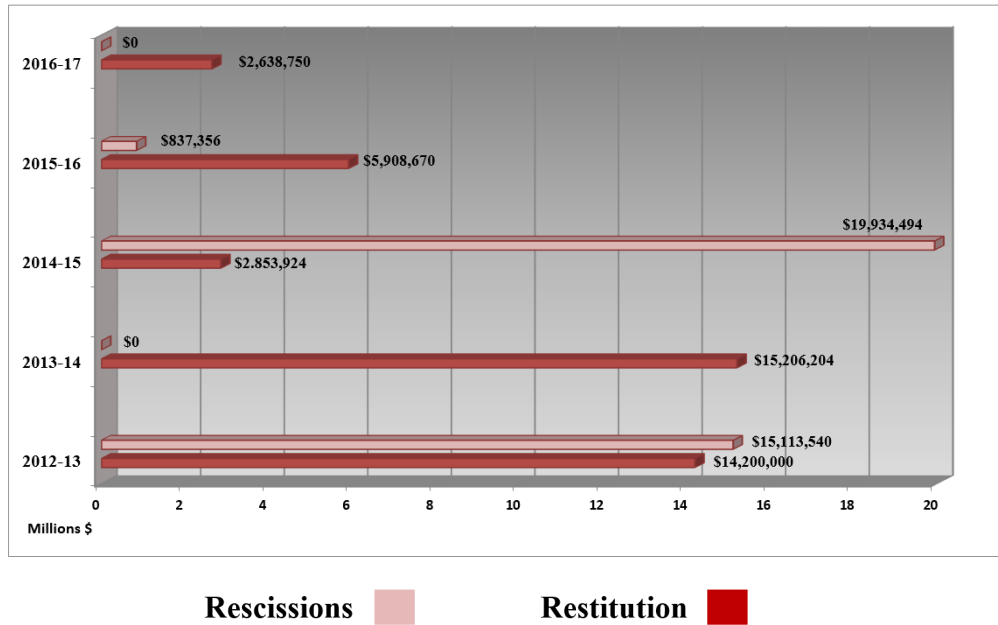
### Total Revenue to General Fund Fiscal Years 2012-13 to 2016-17



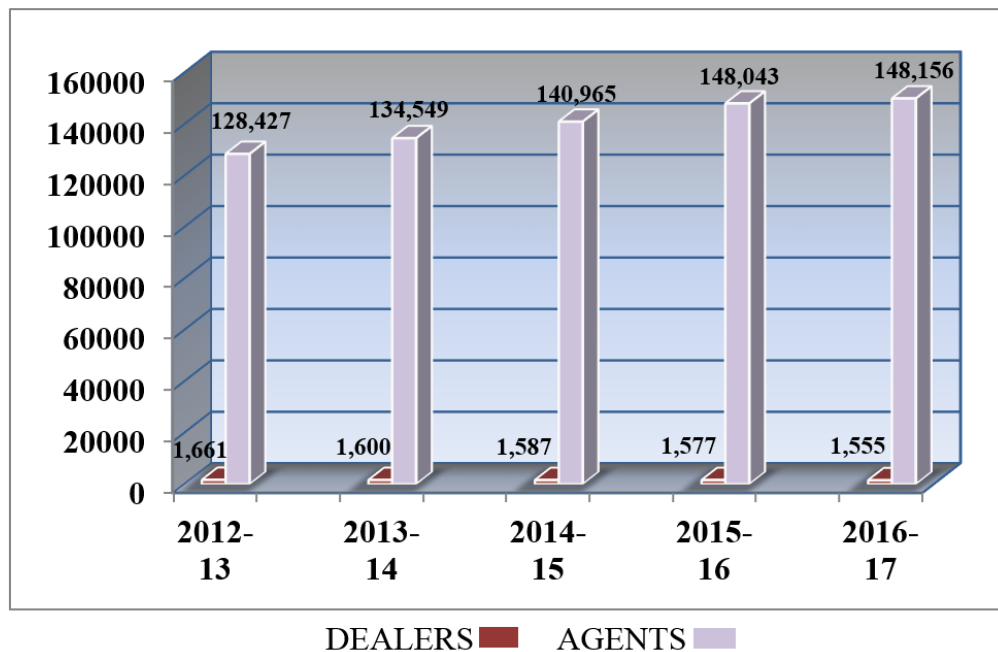
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## Rescissions and Restitution Fiscal Years 2012-13 to 2016-17



## Broker Dealer Registrations Fiscal Years 2012-13 to 2016-17

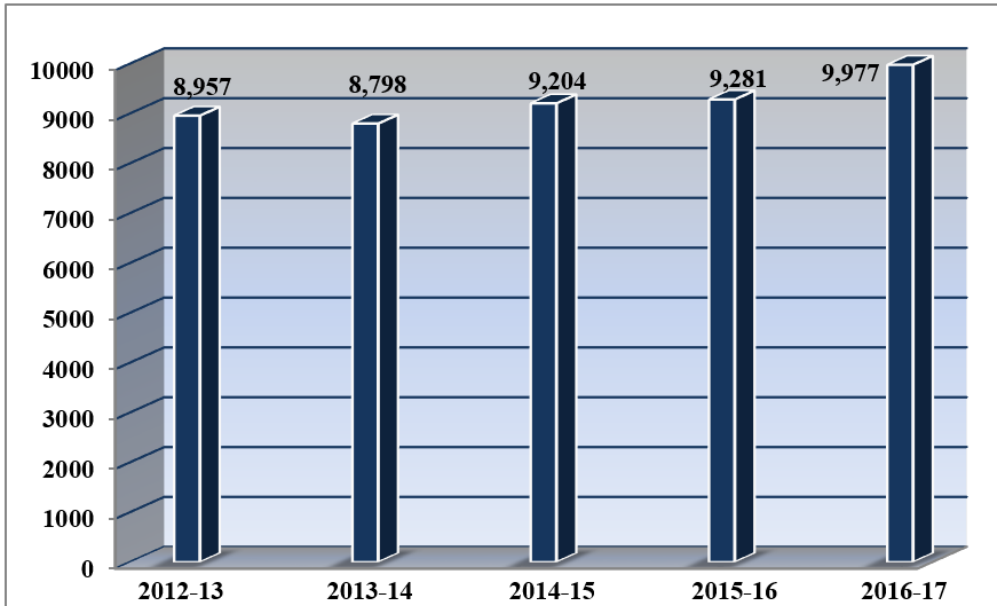


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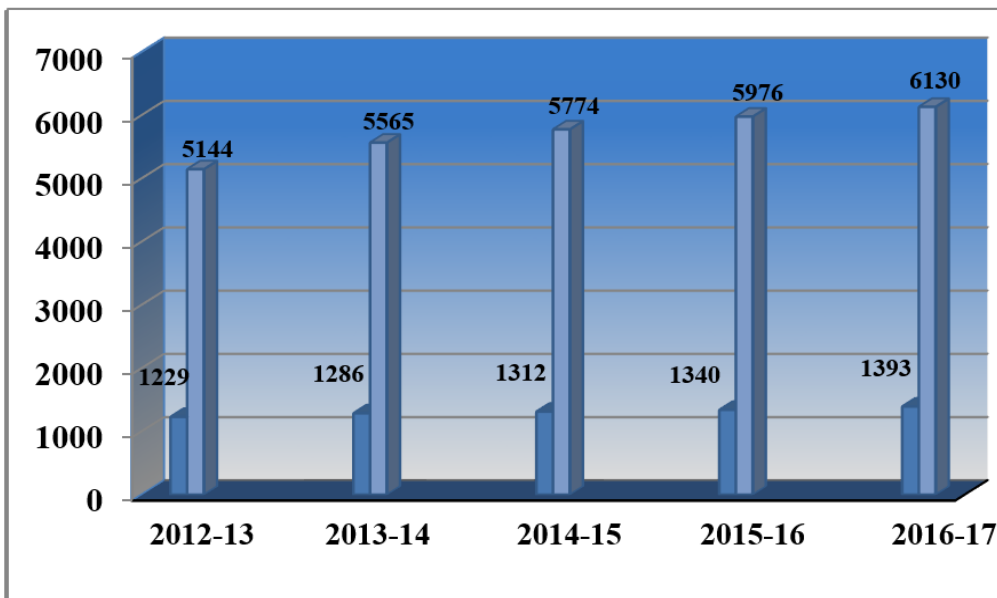
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### Mutual Fund Filings and Exemptions Fiscal Years 2012-13 to 2016-17



### Investment Adviser Registrations and Notice Filers Fiscal Years 2012-13 to 2016-17



IA FIRMS



IA REPS

(Individuals)



# FINANCIAL STATEMENT

## FISCAL YEAR 2017

### Agency Revenues

#### Authority

§ 8-6-3(h)	Investment Advisers & Representatives .....	\$10,061,710
	Broker-Dealers & Representatives .....	
§ 8-6-8	Securities Registration.....	115,257
§ 8-6-11	Exemptions.....	268,200
§ 8-6-19	Administrative Assessments/Investigative Executions.....	61,262
§ 8-6-10(11)(b)(2)	Mutual Fund Exemptions.....	7,600,500
§ 8-6-29	Opinions.....	0
§ 8-6-115	Industrial Revenue Bonds.....	2,220
§§ 8-7-6; 8-7-9	Sale of Checks .....	52,930
§§ 8-7A-6; 8-7A-9	Monetary Transmission Act as of August 1, 2018 .....	2,000
	Miscellaneous Revenues .....	20,153
	<b>TOTAL REVENUES .....</b>	<b>18,184,232</b>
	To General Fund .....	\$ 9,459,184
	To Sale of Checks Fund .....	52,930
	To Securities Commission Fund .....	8,669,898
	To Industrial Revenue Fund .....	2,220
	<b>TOTAL .....</b>	<b>\$ 18,184,232</b>

### Expenditures

Personnel Costs .....	\$ 3,397,388
Employee Benefits .....	1,236,798
Travel (In-State).....	32,793
Travel (Out of State).....	72,079
Repairs & Maintenance .....	2,780
Rentals & Leases .....	771,403
Utilities & Communications .....	51,583
Professional Services .....	158,855
Supplies, Materials & Operating Expenses.....	195,752
Transportation Equipment Operations .....	33,483
Grants and Benefits.....	0
Transportation Equipment Purchases.....	97,429
Other Equipment Purchases .....	87,617
<b>TOTAL .....</b>	<b>\$ 6,137,960</b>
Additional Transfer to State General Fund .....	\$ 3,000,000
<b>TOTAL EXPENDITURES .....</b>	<b>\$9,137,960</b>
<b>TOTAL TO GENERAL FUND FOR FISCAL YEAR 2017 .....</b>	<b>\$12,459,184</b>

# Alabama Securities Commission Enforcement Division

## Enforcement Activity

Corporate Inquiries Opened	131
Corporate Inquiries Closed	129
Investigations Opened - "I"	32
Investigations Closed - "I"	51
Investigations Opened - "S"	41
Investigations Closed - "S"	45
Administrative Actions	9
Administrative Action Respondents	31
Indictments/Warrants Obtained	13
Arrests Made	11
Convictions Obtained	9
Public Warnings Issued	2
Referrals to Other Agencies	25

## Administrative Orders Issued

A comparative summary of the Enforcement Division's  
Fiscal Year 2017 activities are shown on the following chart:

TYPE OF ORDER ISSUED	RESPONDENTS	ORDERS
Cease and Desist	24	5
Consent	1	1
Show Cause	0	0
Consent Agreement	6	3
TOTALS:	31	9

# REGISTRATIONS & EXEMPTIONS

## TOTAL NUMBER OF REGISTRATIONS AND EXEMPTIONS ISSUED IN FY 2017: 167,756

10/01/2016 - 09/30/2017

	Application Filed	Application Approved	Renewal Processed	Application Withdrawn	Application Terminated
Broker/Dealer	91	76	1479	14	96
Broker/Dealer Agent	n/a	28067	120089	291	26172
Eleemosynary Financing Exemption	41	37	0	5	2
Exempt Consent	1	1	0	0	0
Expansion Order	2	2	0	0	0
Industrial Revenue Bond	3	2	0	0	0
Investment Adviser - Federal	120	116	1121	0	79
Investment Adviser-State Registered	25	15	141	4	15
Investment Adviser Representative	n/a	1065	5065	41	883
Limited Offering	892	861	0	5	115
Mutual Fund Exemptions	1955	1955	7120	0	212
Registration by Coordination	69	44	0	24	34
Registration by Qualification	0	0	0	0	0
Registration by Notification	1	1	0	0	0
Restricted Agent	59	61	279	1	41
Sale of Checks Vendor	16	18	141	0	9

**INDUSTRIAL REVENUE BONDS  
FILED IN FY2017**

<b>File #</b>	<b>Fees</b>	<b>Name of Filing</b>	<b>Date Filed</b>	<b>Total Amount of Offering</b>

41579	\$1,000.00	KINPAK, INC. Project, Series 2017 (The Industrial Development Board of the City of Montgomery)	8/24/2017	\$4,500,000.00
41636	\$1,000.00	Springhill Medical Complex, LLC (The Medical Clinic Board of the City of Mobile-Springhill City Hall)	9/25/2017	\$31,000,000.00
41649	\$1,000.00	Springhill Area Leasing, Inc. (The Medical Clinic Board of the City of Mobile, Alabama - Spring Hill)	9/29/2017	\$6,462,335.35
<b>TOTALS:</b>	<b>\$3,000.00</b>			<b>\$41,962,335.35</b>





## Director's Report

### ASC Continues to Protect Alabamians Through Education, Registration and Enforcement



Joseph P. Borg, Director

The Alabama Securities Commission (ASC) is strongly committed to protect Alabama citizens (individuals, small business, corporations, endowments), in all walks of life from deceptive and illegal practices associated with offers, sales and purchases of securities and securities-related services in Alabama. In order to meet this goal, the ASC carries out four important functions: registration, auditing, enforcement and education, and strives to continually refine and strengthen its role as a staunch advocate for Alabama's "main street" investors. By protecting Alabama's investors the ASC preserves and encourages legitimate capital markets in the state.

The ASC is proud to announce the new "Alabama Monetary Transmission Act" was passed by the Alabama Legislature during the last week of the General Session on May 17, 2017 and signed into law by Governor Kay Ivey. This Act became effective on August 1, 2017.

State Senator Arthur Orr (R), 3<sup>rd</sup> District and Representative Ken Johnson (R), 7<sup>th</sup> District, sponsored the bills in the House and Senate. The bill, entitled "The Alabama Monetary Transmission Act," (Code of Alabama, 1975 8-7a-1, et seq) was drafted by the Alabama Securities Commission (ASC) and replaces the former Sale of Checks Act which had been in effect since 1961.

The new law, which includes new systems such as virtual currency, modernizes the former law which lacked administrative and enforcement authority, and did not adequately address modern technology. The Act governs non-banking entities that engage in the business of selling, issuing or otherwise dispensing checks or transfers of money on behalf of individuals who may regularly use these services. The law also covers debt management services that receive money from obligors for the purpose of paying the obligors' bills or accounts. The new law exempts banks, bank holding companies, securities-clearing firms, payment system and settlement processors, broker-dealers, federal, state, county and municipal government entities, commodities boards of trade and registered futures commission merchants.

To view filing requirements for money transmitters, pursuant to the Alabama Monetary Transmission Act, visit the ASC website, [www.asc.alabama.gov](http://www.asc.alabama.gov).

### Accomplishments and Office/Division Functions

In FY 2017 ASC generated **\$12,459,184** for the General Fund. This fiscal year, the demand for services increased with a continuing recovery from the economic downturn that impacted capital markets. ASC maintains a high level of efficiency by applying proven management techniques, efficient performance of duties, effective use of available technologies and adherence to stringent budget

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guidelines. The ASC is sensitive to the financial concerns and long-term financial security of Alabama citizens, whether individuals or small businesses, and must act quickly and decisively when misleading or illegal practices undermines confidence in our financial markets. When Alabama securities laws are believed to have been violated, the **ASC's Enforcement Division** takes the lead in conducting complex investigations in response to complaints or evidence of alleged securities fraud.

Twelve highly-trained and experienced veteran investigators (Special Agents), use their more than **300** years of combined law enforcement experience to collect and analyze large quantities of complex information ranging from paper records to sophisticated electronic data.

Special Agents closely examine investor complaints concerning suspicious, deceptive, unsuitable and/or illegal investment offerings within, into or from Alabama, as well as the sale of fraudulent and unregistered investment products. Special Agents coordinate their investigations with the Commission's Legal Division, and when appropriate with local, state and federal authorities to thoroughly examine complaints, analyze financial transactions and bring legal action against any person or business entity suspected of being in violation of the Alabama Securities Act and/or applicable federal laws.

The strong efforts and expertise of the Enforcement Division, during the past five years, resulted in an average of **22** criminal indictments each FY for the violation of laws regulating the securities industry. In FY 2017 the Division's hard work resulted in more than **\$2,638,750** in victim restitution from prosecuted cases; **11** arrests; **9** convictions; and helped secure **24** years of incarceration for defendants found in violation of laws regulating the securities industry.

The Alabama Securities Act requires any security sold in Alabama to be appropriately registered or specifically exempt from registration; and, requires the registration of broker-dealer firms, their agents, investment adviser firms and their representatives and money transmitters.

The **Registration Division** is charged with the initial and ongoing registration process for individuals and firms who market and sell securities and financial services to Alabama citizens. Any person or company that offers and/or sells securities within, into or from Alabama must be registered with the ASC in order to conduct business legally. In FY 2017, **167,756** registrations, licenses and exemptions were issued by the Registration Division. The Registration Division is also responsible for the processing of fees associated with applications and renewals.

The **Auditing and Examinations Division** is responsible for conducting a full schedule of onsite routine and for-cause examinations. Every three years on average, the division auditors examine each of the state-regulated investment advisers domiciled in Alabama, while continuing to audit broker-dealers, their branch offices, and monetary transmission agents on a for-cause basis. The audit program identifies serious securities violations, as well as potential weaknesses in sales practices, in order to help strengthen these businesses' compliance programs and to protect Alabama investors. The division also conducts limited joint audits with other states for complex audits and enforcement investigations. In Fiscal Year 2017, the Auditing and Examinations Division conducted **58** audits, with **19** of these being for-cause examinations driven by investigations, customer complaints or licensing issues.

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The Commission firmly believes that investor education and fraud prevention training can assist in shielding our citizens from being victimized by financial criminals. The **Education and Public Affairs Division** conducts an average of **70** events annually throughout the state, including presentations for social, civic and professional groups. During FY 2017, the Division conducted **75** events that provided direct outreach and instruction to over **7,069** citizens, ranging in age from high schools students to senior retirees. During FY 2017, the Division helped acquire approximately **\$131,550** in grant money from the Investor Protection Trust (IPT). These funds helped provide personal finance and investor education events for teachers and students in grades 7-12, as well as for senior Alabamians concerned with the protection of their life savings and a need to make informed investment decisions. Also, IPT funded the production of a wonderful program entitled “When I’m 65” that is available to Alabamians and citizens nationwide. Learn more about ASC investor education and fraud prevention programs at ASC Education Corner, pages 22-33.

The **Legal Division** is comprised of five highly-skilled and dedicated attorneys who are ably assisted by two full-time paralegals. The Legal Division possesses over 100 years’ for combined legal and prosecutorial experience and is responsible for investigating and prosecuting fraudulent and illegal actions by individuals and companies in the offering and sale of securities within, into or from the State of Alabama including any related activities in violation of the Alabama Securities Act and associated statutes. The ASC Legal Division prosecutes administrative, civil and criminal actions brought by the Commission and renders legal opinions and no-action letters related to issues of law pursuant to the Alabama Securities Act. The division also acts as in-house legal counsel for all legal issues concerning the daily operations of the Commission staff, including investigations and personnel issues, and acts as liaison with other government agencies when legal matters of common interest arise. The legal staff works closely with district attorneys throughout Alabama to assist in the investigation and prosecution of white-collar crime. ASC attorneys consult with other states on legal issues involving overlapping jurisdictions and aids federal prosecutors, the U.S. Securities and Exchange Commission, the Commodity Futures Trading Commission (CFTC), the Financial Industry Regulatory Authority and others to assure that Alabama’s main street investors are afforded maximum protection from investment fraud.

The **Accounting and Personnel Division** is charged with effecting the continued smooth operation of the agency’s fiscal and employee-related requirements. The division provides for the overall sound financial operation of the agency, including preparation of the annual budget and operations plan, supervising the gathering and maintenance of all financial records and reports, assuring propriety of agency expenditures and budgetary controls, maintenance of personnel and payroll records and being accountable for all physical inventory. The division cooperates with the Examiners of Public Accounts to ensure the Commission is in strict fiscal compliance with the Code of Alabama. Historically, the division has received a perfect “Property Inventory” audit and constantly strives to make certain that the Commission’s property and monetary resources are used and maintained for greatest benefit of Alabama citizens.

The **Information Technology (IT) Division** plays a crucial role in the efficient provision and management of the Commission’s electronic data requirements. Division personnel work diligently to provide streamlined, results-driven methods for the secure utilization and storage of sensitive information and the maintenance of the agency’s computer hardware and software systems including constant information exchange with national databases covering more than **660,000** financial professionals and firms through the national Central Registration Depository (CRD) and Investment Adviser Registration Depository (IARD).

## *Investor Education and Fraud Prevention Outreach Program*



*Dan Lord  
Manager*

### **ASC EDUCATION CORNER** ***Promoting Investor Protection***

ASC's Education and Public Affairs Division provides timely and relevant information to help educate and protect Alabama citizens so they can make safer and more informed investment decisions. Please contact this office to schedule a free training presentation, high school field trip, or to request free materials about all facets of managing ones finances.



*Clint Niemeyer, Public  
Affairs Specialist*

### **ASC launches active Facebook and Twitter program**

The Alabama Securities Commission team has never been afraid to lead the way on new frontiers and is always looking for better ways to serve the citizens of Alabama. With the new age of technology, our Public Affairs and Education Department alongside the Information Technology (IT) Division, seized the opportunity to reach more citizens by creating Facebook and Twitter pages.

This is the second fiscal year that Faith Feaga has provided a specialized and creative approach to the ASC Facebook and Twitter pages. Faith finished her bachelor's degree and continues to work part time to support ASC social media initiatives while pursuing a graduate degree at The Bush School of Government and Public Service at Texas A&M University.



*Faith Feaga, Student-  
Aide (Social Media)*

The use of social media is an excellent way to reach Alabamians, especially the millennial generation. Our goals for FY2017 were to double the following on each of the accounts. Having done so, we look forward to continued growth in our social media following and exploring other outlets.

### **Educating Working Adults and Seniors: ASC's Collaboration with Alabama Department of Senior Services (ADSS)**

ASC is grateful for the continued association with, and support of, the Alabama Department of Senior Services (ADSS). During FY 2017, the ASC, in association with ADSS and its statewide network of Area Agencies on Aging, hosted hundreds of working Alabama adults, senior citizens and professional caregivers in celebration of World Elder Abuse Awareness Day (WEAAD) starting in June, 2017. Events were held in Dothan, Montgomery, Robertsedale, Troy and Scottsboro. Senior citizens received valuable insight and educational materials to help them and their families defend against financial fraud, exploitation and victimization, and make more informed investment decisions. The ASC worked with the Washington, D.C. based Investor Protection Trust (IPT) to acquire a generous grant to defray the cost of most of these events.

World Elder Abuse Awareness Day (WEAAD) started in 2006 by the International Network for the Prevention of Elder Abuse and the World Health Organization at the United Nations. The goal of

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## *Investor Education and Fraud Prevention Outreach Program*

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WEAAD is to increase awareness and understanding of elder abuse, so that as a community, we can work together to prevent and stop elder abuse. WEAAD is a call-to-action for us to educate each other on how to identify, address and prevent abuse!

U.S. Rep. Bradley Byrne, together with officials from the Alabama Securities Commission (ASC), the Alabama Department of Senior Services (ADSS), South Alabama Regional Planning Commission (SARPC) and the City of Robertsdale, hosted a Community Education Program for Seniors on August 23, 2017 at PZK Hall in Robertsdale. More than 70 seniors from the Greater Baldwin County area heard comments and presentations addressing issues of importance to their long-term social, medical and financial well-being.



U.S. Representative Bradley Byrne speaking in Robertsdale

Rep. Byrne shared his unique understanding of critical issues affecting seniors, having been a life-long resident of South Alabama, where he has been continually involved in local community initiatives through his service as a past member of the Alabama State Senate, Alabama State Board of Education, and Chancellor of Alabama's community college system.

Emily Marsal, General Counsel of ADSS, spoke on the various programs that the Alabama Department of Senior Services offered and highlighted some of the statistics which indicate a better quality of life for Seniors who are being served by these programs.

Joseph Borg, Director of ASC, spoke about the role that the Alabama Securities Commission plays in helping protect the long-term financial well-being of Alabama's seniors. Speaking about "How to Protect Yourself from Financial Fraud," Borg described the many dangers that seniors face from a multitude of illicit schemes and fraudulent sales pitches targeting their retirement savings and investments.

WEAAD-related events in Alabama also focused public attention on the Protection of Vulnerable Adults from Financial Exploitation Act (Code of Alabama, §8-6-170), authored by the ASC, with critical support from ADSS, Alabama DHR/Adult Protective Services and others. Effective July 1, 2016, the law strives to increase protections for seniors who might suffer from diminished capacity and for other vulnerable adults, by clarifying and better aligning the responsibilities of financial professionals, regulators, law enforcement and adult protective services, regarding the reporting of suspected or confirmed senior financial exploitation.

ASC is a member of the Alabama Interagency Council for the Prevention of Elder Abuse, an organization comprised of 30 public and private agencies and advocacy organizations, whose mission is to

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## *Investor Education and Fraud Prevention Outreach Program*

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strengthen partnerships that will help protect seniors and raise public awareness of elder abuse issues through education, advocacy and outreach. ASC looks forward to continuing and reinforcing its efforts with ADSS to assure that World Elder Abuse Awareness Day remains a strong and lasting movement for the protection of our state and nation's working adults and senior citizens.

### **Alabama Education Retirees Association (AERA)**

During FY 2017, the Alabama Securities Commission continued its investor education-based initiative with the Alabama Education Retirees Association (AERA). The organization is comprised of 81 local units in nine districts throughout the state, including 11 higher education units. AERA has at least one local unit in each of Alabama's 67 counties, serving a total membership of approximately 25,000 retired educators.

ASC's Education and Public Affairs Division personnel visited 7 AERA chapters during FY 2017, presenting educational programs to approximately 144 retired state educators about ASC's mission, and offering well-received information about recognizing and preventing senior financial fraud and victimization. Most of the presentations this FY were in rural areas.



AERA Bill King speaks to Lauderdale Cty Chapter on 5/17/17 prior to an ASC presentation

AERA members are diverse, well-educated and dedicated former educators with many years of individual service to the students and school systems throughout Alabama. As with thousands of other previously retired or older working professionals in Alabama, they may have amassed significant savings, investments and other personal financial assets and are often faced with major financial decisions linked to their pension earnings and life savings. As such, association members could be targeted for financial fraud and resulting victimization by financial criminals who may persuade them to invest their retirement assets in unsuitable, unregistered and/or illegal investment vehicles.

### **ARSEA/APEAL**

Representing approximately 20,000 constituents, the Alabama Retired State Employees Association (ARSEA), and the Alabama Public Employees' Advocacy League (APEAL) are organizations representing state, county and municipal retirees and active employees throughout the state's 67 counties.

During FY 2017, The Alabama Securities Commission again partnered with ARSEA/APEAL to display

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## *Investor Education and Fraud Prevention Outreach Program*

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and speak at several chapter events (Montgomery, Monroeville, Opelika, and Selma), as well as the ARSEA/APEAL State Convention in Tuscaloosa, September 19, 2017. The ASC worked with the Washington, D.C.-based Investor Protection Trust (IPT) to help acquire a generous grant to assist ARSEA/APEAL to defray cost of these events.

As a result of the ASC presentations, members learned of the many aspects of financial fraud and victimization that could threaten their retirement nest eggs. ASC staff offered insightful and informative printed material concerning the most persistent and dangerous investor threats, and how best to recognize, avoid and combat predatory financial scams. ASC's objective was to enhance ARSEA/APEAL members' overall financial knowledge so that they can make informed investment decisions and invest their money wisely and safely, thus maximizing their retirement resources.

ASC's Investor Education and Fraud Prevention Outreach program has received excellent responses from ARSEA/APEAL members representing their Alabama chapters. Members report that they now feel better informed and have the tools to make safer and wiser investment decisions.

### **Better Business Bureau of North Alabama**

For the past 14 years, ASC has actively partnered with the Better Business Bureau (BBB) of North Alabama and its mission to educate and protect Alabamians from dishonest business practices and financial fraud. Throughout this time, ASC personnel participated in the BBB's fraud prevention events held throughout North Alabama. BBB marketing efforts attracted working adults and retirees to the seminars to learn about the latest issues that could affect their financial security. Over 550 citizens attended 5 fraud prevention events held in Huntsville, Decatur and Cullman areas. To help defray the cost of these events the ASC assisted BBB of North Alabama to apply for and receive grants from the Investor Protection Trust in Washington, D.C.



Elizabeth Garcia, President of BBB for North, AL partners with ASC to address members of a local AARP club at the Senior Center in Huntsville

Some of the fraud prevention events were organized around expert panels consisting of representatives from the BBB of North Alabama; the Alabama Securities Commission; the Alabama Attorney General's Consumer Affairs Division; the U.S. Postal Inspection Service; U.S. Federal Trade Commission; local law enforcement agencies, local financial institutions, and others.

Representatives of each agency spoke of their respective fields of expertise, their responsibilities and how their agencies worked cooperatively to combat consumer fraud and other financial crimes that target Alabama's citizens. Topics included insightful information by panel members about offers of potentially unsuitable investment "opportunities," frauds associated with unregistered investment offerings, lottery and

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## Investor Education and Fraud Prevention Outreach Program

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sweepstakes schemes, the warning signs of financial fraud, and suspicious and illegal offerings through the U.S. mail, among others. Panel members fielded a variety of questions from audience members about issues of particular concern and how best to thwart illegal tactics used by con artists who might attempt to victimize them, either in person, via email, phone or through social media. Panel representatives also provided, free of charge, a wealth of printed educational material for consumers' reference and use.

### ASC Military Outreach Programs & Special Website Area

Director Borg says, "Inquiries from any military personnel, in any status (active, reserve, guard or veterans), or from their dependents, will get our immediate attention to help provide information or to investigate complaints and concerns as necessary."

ASC staff have the experience to understand financial challenges of the military community. Nine ASC staff members have a total of over 170 years (combined) of honorable service in the United States military to protect the freedom of the United States; some supported or deployed during recent U.S. defense initiatives. The Deputy Director of Enforcement was a Staff Judge Advocate with more than 30 years experience in military law. The Manager of Education and Public Affairs has more than 20 years experience in the administration of military education programs and one Special Agent was a U.S. Army Reserve Command Sergeant Major who deployed to the middle east and oversaw the welfare of thousands of troops. Others have varied experience in a variety of military fields of expertise.



Maxwell Air Force Base, AL

ASC's special website area for military and their dependents; "Protect Alabama Troops" (PATs) was launched June 16, 2009 and is an information-based resource, accessible on ASC's web page, [www.asc.alabama.gov](http://www.asc.alabama.gov). The site consists of appropriate, practical news, tips and advice for Alabama's active-duty, guard and reserve military, as well as retired military and veterans. The site is specifically designed to assist them and their family members to make informed investment decisions and avoid becoming victims of financial fraud before, during and after deployment and in the transition to retired military or civilian life.



Redstone Test Center at the Redstone Arsenal in Huntsville

**ASC provides investor education seminars and free information:** Upon request, the ASC will provide free financial education seminars, about safe and wise investing, to any military installation/unit in Alabama. Top-notch personal finance and investor education materials published by Kiplinger's Personal Finance and ASC, were made available to anyone affiliated with the military in Alabama.

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## *Investor Education and Fraud Prevention Outreach Program*

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### **Military personnel, their dependents, and Veterans are welcome to call on ASC**

All military personnel and their dependents who are considering investment opportunities are encouraged to contact the ASC, toll-free, **1-800-222-1253**, with inquiries about the registration status of financial products, licensing requirements for those individuals or companies offering or selling financial products or services to military families in Alabama, to lodge a complaint, to report suspected fraud or to receive consumer information.



Army Aviation Training at Ft. Rucker - UH-72A Lakota

### **Alabama Veterans Face a Serious Threat: Financial Scammers**

After valiantly serving and protecting our country, Alabama veterans, like their counterparts throughout the United States, are facing a damaging threat from a dangerous enemy. Increasingly, Alabama veterans are prominent targets for unscrupulous salespersons or con artists who use aggressive and often illegal sales practices to entice the veteran to spend their pensions or hard-earned savings.

A recent AARP study confirmed that one in three victims of financial fraud in America are military veterans. Another disturbing statistic from the U.S. Federal Trade Commission's Consumer Sentinel notes that there has been a 65 percent increase in fraud complaints from vets over the past five years.

There are unfortunately, numerous instances involving retirees from different areas of the military who have used their past armed services associations to scam fellow veterans out of their life savings. This type of scam is referred to as "affinity fraud." Military affinity fraud occurs when people manipulate the close connection between veterans, including active-duty personnel, to promote and sell unsuitable or fraudulent investment products. Regardless of the depth of the relationship or bond, always check to see if that person, as well as the product being offered, is properly registered with the ASC. Even if you fought beside another soldier, sailor or airman in a combat circumstance that was life-threatening, in the future, you should check if that person, as well as the product being offered, is properly registered with the ASC.

Alabama veterans have not been immune to fraudsters' efforts, as cases investigated and prosecuted by the Alabama Securities Commission (ASC) can attest. An 86 year-old retired U.S. Air Force pilot and a 91 year-old retired World War II U.S. Navy veteran lost several hundred thousand dollars in a bogus investment opportunity offered by a former North Alabama attorney. An ASC investigation revealed that both veterans were offered promissory notes in exchange for their money which was to be invested in real estate and medical technology ventures with returns to be paid at a specified time. The veterans were also promised returns from 8-12 percent on their investments. However, the financial analysis concluded that the culprit used the majority of investor funds to pay previous investors in a Ponzi-type scheme and for his personal benefit. Upon investigation by the ASC's Enforcement Division and subsequent prosecution by the agency's Legal Division, the defendant pled guilty to three counts of Securities Fraud, was sentenced to 20 years imprisonment, split to serve five years in the state penitentiary, and ordered to pay more than \$4 million in restitution to multiple victims.

### **VISIT THE ASC DURING YOUR HIGH SCHOOL FIELD TRIP**

High School students and teachers from all over Alabama are welcome to visit the Commission at no cost other than to provide their own transportation and lunch. Typical field trips last about four hours and include more than two hours of investor education and information about how ASC regulates the securities industry in Alabama. Also, ASC can schedule a tour of the Capitol or State Archives, upon request, so students can learn more about the Alabama legislative process or the State's history. High School teachers may call 1-800-222-1253 and ask for the Education and Public Affairs Division to schedule a tailor-made field trip.

### **Alabama Jump\$tart Coalition**



The "Day of Financial Literacy" luncheon (picture at left) was hosted by the Alabama Jump\$tart Coalition (AJC) at the BJCC in Birmingham, August 2, 2017, during the Alabama Association of Career and Technical Education (AACTE) Professional Development Conference. The key note speaker at the luncheon was Tim Ranzetta, Founder & Director, Next Gen Finance. More than 200 teachers benefited from free financial education curricula, resource materials for Alabama classrooms, and a lunch sponsored by numerous business and other agencies to include the Investor Protection Trust. ASC and other AJC members provided financial education seminars to teachers before or after the luncheon. ASC staff is proud to be a member of the AJC and to assist in the operation of this event to provide financial and investor education to high school teachers from all over Alabama.

### **Future Business Leaders of Alabama (FBLA) Students and Advisors**

As members of the FBLA, high school students explore college and career opportunities through a number of cocurricular educational programs. Members take part in academic competitions, networking events with accomplished business professionals at conferences, and community service projects. Plus, members have exclusive access to scholarships from a select group of academic institutions.

The ASC partnered with the FBLA and made investor education presentations at four district meetings in FY2017. About 480 high school students at district meetings in Birmingham and Mobile received investor education & financial training. At the annual FBLA conference in Birmingham at the BJCC on April 4, 2017 the ASC made an investor education presentation to over 2,300 high school students and their advisors. ASC helped FBLA receive a grant from the Investor Protection Trust, Washington D.C., to defray the cost of these events.

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## Investor Education and Fraud Prevention Outreach Program

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### Distributive Education Clubs of America (DECA) Students and Advisors

DECA prepares emerging leaders and entrepreneurs in marketing, finance, hospitality and management. The high school student members of DECA are smart, dedicated individuals already actively involved in preparing for successful careers in marketing, finance, hospitality and management. The ASC helped DECA receive a generous grant from the Investor Protection Trust to defray the conference costs. ASC made an investor education presentation to over 500 high school students and advisors at the annual DECA conference in Birmingham at the BJCC on February 2, 2017.



Dan Lord, ASC Education and Public Affairs Manager presents.

### ASC Launches Partnered Investor Education Program for Historical Black Colleges and Universities (HBCUs)

**According to the U.S. Department of Education:** HBCUs are a source of accomplishment and great pride for the African American community as well as the entire nation. The Higher Education Act of 1965, as amended, defines an HBCU as: "... any historically black college or university that was established prior to 1964, whose principal mission was, and is, the education of black Americans, and that is accredited by a nationally recognized accrediting agency or association determined by the Secretary [of Education] to be a reliable authority as to the quality of training offered or is, according to such an agency or association, making reasonable progress toward accreditation." HBCUs offer all students, regardless of race, an opportunity to develop their skills and talents. These institutions train young people who go on to serve domestically and internationally in the professions as entrepreneurs and in the public and private sectors.

#### "Mind Over Money Skills" Investor Education Seminar



Theodore R. Daniels, Presenter



Daniel G. Lord, Presenter

**Date:** Tuesday, April 13, 2017

**Location:** Room 117 NSB

**Time:** 12:30pm



Funded by a grant  
from the Investor  
Protection Trust  
[www.investorprotection.org](http://www.investorprotection.org)



**SFE&PD**  
Society for  
Financial Education  
and Professional  
Development, Inc.

Organized by: Alabama A&M University, Department of  
Accounting and Finance, College of Business and Public Affairs

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## *Investor Education and Fraud Prevention Outreach Program*

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There are 102 HBCUs in the United States according to The National Center for Education Statistics. Alabama proudly hosts 12 HBCUs, more than any other state.

This year ASC partnered with the Society for Financial Education and Professional Development, Inc. (SFE&PD) and the Investor Protection Trust (IPT), both from Washington D.C., to provide investor education events at three HBCUs in Alabama. The IPT will provide funds in support of three events, during this FY and early FY2018, one event took place at Alabama A&M University in Huntsville in April 2017.

### **ASC Professional Training Programs**

Upon request, ASC provides training to a number of professional organizations including enforcement agencies. Many of these presentations qualify for continued professional education credit. Also, ASC staff is involved in national education initiatives to identify and prosecute financial crime and implement programs to empower citizens to make safe and wise investment decisions. One example is ASC's participation with the Financial Industry Regulatory Authority (FINRA) to teach enforcement professionals, from the Birmingham area, about investigating white collar cases in November 2016.

### **ASC Partners with the National Association of Social Workers (NASW) to Promote Investor Education to Social Workers in Alabama.**



ASC assisted the NASW to receive a generous grant from the Investor Protection Trust, based in Washington D.C., to defray the cost of their conference and provide investor education to attendees. This event was held at the University of Alabama, Capstone Convention Center, April 24, 2017. The ASC provided five seminars to attendees. Also, ASC provided free investor education and fraud prevention materials to over 200 conference attendees. This was a great opportunity to train professional social workers, nurses, counselors, speech pathologists, occupational therapists and others who work with citizens of Alabama.

### **ASC's Close Partnership with National White Collar Crime Center (NW3C)**

The Alabama Securities Commission has cultivated a valuable and powerful collaborative partnership with the National White Collar Crime Center (NW3C). ASC continues to participate and contribute to NWC3 initiatives and training programs. ASC Director, Joseph Borg serves as a member of NW3C's Board of Directors. For more than three decades, NW3C has provided a nationwide support system for law enforcement and regulatory agencies involved in the investigation, prosecution and prevention of economic and high-tech crime.

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## *Investor Education and Fraud Prevention Outreach Program*

### **ASC EDUCATION AND PUBLIC AFFAIRS DIVISION (ED & PA)** **Financial Literacy, Investor, and Fraud Prevention Education Presentations/Meetings**

<u>Date</u>	<u>Place</u>	<u>#</u>	<u>Audience Type</u>
9/28/17	Birmingham, AL at Lawson State Community College	180	High school students at an FBLA* regional meeting
9/19/17	Tuscaloosa at the Capstone Convention Center	100	Display and attend the ARSEA* annual conference
9/15/17	Valley, AL at Cotton Duck Meeting Center	39	Chambers Co. Education Retirees Assn.
9/14/17	Scottsboro, AL at the Jackson Cty Council on Aging	75	Partner with Area Agency on Aging to reach seniors and caregivers
9/14/17	Mobile, AL at The University South Alabama	300	High school students at an FBLA regional meeting
9/7/17	Huntsville, Alabama at the Senior Citizen Center	38	Partner with the BBB* of N. AL to reach AARP* members
9/6/17	Huntsville, Alabama at the BBB of N. AL office	2	Meeting with President to plan 2018 events in N. Alabama
8/31/17	Pell City, Alabama at the First Baptist Church	35	Partner with Asst. DA, Clair County, to reach senior citizens
8/23/17	Robertsdale, AL at the PZK Hall	72	Senior and Caregivers from the Baldwin County area
8/17/17	Huntsville, AL at the Latham Methodist Church	60	The Elderberries senior citizen club
8/14/17	Montgomery, AL at the WSFA TV studio	NA	Citizens call-in to TV panel, partner with AARP & WSFA
8/12/17	Selma, AL at Ebenezer Baptist Church	15	Church leaders from surrounding counties and area
8/11/17	Dothan, AL at Wiregrass Rehabilitation Center	120	Senior and Caregivers from the Dothan County area
8/4/17	Cullman, AL at the Beach Center	220	Partner with the BBB of N. AL to reach seniors from local area
8/2/17	Birmingham, AL at the BJCC Convention Center	200	High School Teachers at Career and Technical Edu. (CTE) conf.
7/19/17	Montevallo, AL at the American Village	25	Caregivers & organizations helping seniors in Shelby County
7/8/17	Huntsville, AL at the Huntsville Senior Center	45	Senior citizens and members of NARFE*
6/28/17	Montgomery, AL at Mental Health America	15	Citizens with mental health conditions
6/23/17	Montgomery, AL at Alabama Public Library Service	60	Partner with the Central AL Aging Consortium to train caregivers
6/22/17	Troy, AL at New Beginning Adult Day Health	42	Partner with S. Central AL Dev. Comm. to train senior caregivers
6/21/17	Ft. Rucker, AL at the Military Family Services Center	2	Discuss and plan military financial education initiatives.
6/20/17	New Brockton at the Coffee County Baptist Assoc.	60	Woman who are senior citizens and widows
6/16/17	Huntsville, AL at the Redstone Fed CU Atrium	125	Partner with the BBB of N. AL to reach caregivers and seniors
6/15/17	Selma, AL at Trinity Lutheran Church	50	Partner with Dallas County DHR to reach senior citizens
6/14/17	Jasper, AL at the Jasper Civic Center	90	Partner with M4A* to teach caregivers outreach to veterans
6/2/17	Birmingham, AL at the UAB Business School	7	Partner with ACEE* to teach public school teachers
6/1/17	Montgomery, AL at Troy Univ. Montgomery	8	Partner with ACEE to teach public school teachers
5/23/17	Orlando, Florida at the Marriot Hotel	8	NASAA* consulting project group - investor education
5/20/17	Birmingham, AL at UAB Hill Student Center	60	Alabama Money Expo 2017 to reach citizens
5/19/17	Opelika, AL at the Saugahatchee Country Club	80	Dir. Borg receives Bailey award and speaks to AURA*
5/17/17	Florence, AL at Lauderdale Cty. Board of Edu. Annex	18	Retired teachers at an AERA* meeting

Note: Key for asterisked acronyms is on page 33

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## *Investor Education and Fraud Prevention Outreach Program*

(Continued)

<u>Date</u>	<u>Place</u>	<u>#</u>	<u>Audience Type</u>
5/16/17	Evergreen, AL at the Marshall Middle School	8	Retired teachers at an AERA meeting
5/9/17	Montgomery, AL at Elmcroft Senior Living	10	Senior citizens in an independent living facility
5/8/17	Montgomery, AL at the Monticello Library	80	Partner with ADSS* & CAAC* to teach caregivers
5/1/17	Decatur, AL at the City Center Village	45	Partner with the BBB of N. AL to reach senior citizens
5/1/17	Decatur, AL at the Community Action Center	125	Partner with the BBB of N. AL to reach caregivers and seniors
4/24/17	Tuscaloosa, AL at the Bryant Conference Center	230	National Association of Social Workers - Alabama
4/18/17	Selma, AL at the Morningstar Baptist Church	22	Retired teachers at an AERA meeting
4/17/17	Selma, AL at Carl Morgan Convention Center	36	Retired state employees at an ARSEA meeting
4/13/17	Huntsville, AL at Alabama A&M University	30	Partner with SFE&PD* and IPT to teach college students
4/7/17	Auburn, AL at WQSI-FM	NA	Radio Talk Show in Auburn, AL WQSI-FM
4/7/17	Birmingham, AL at the BJCC Convention Ctr.	2300	High school students at the FBLA conference
3/28/17	Columbus, OH at an Investor Edu. conference	75	Director Borg speaks to NASAA about informing seniors
3/17/17	Opelika, AL at the Opelika Sportsplex	38	Retired state employees at an ARSEA meeting
3/16/17	Livingston, AL at the Sumter County Material Center	25	Retired teachers at an AERA meeting
3/13/17	Cullman, AL at Rumors Deli	14	Nat. Active and Ret. Federal Employees Association (NARFE)
3/6/17	Monroeville, AL at the Waterworks	52	Retired state employees at an ARSEA meeting
2/28/17	Hoover, AL at the Hoover Senior Center	150	Senior outreach program for local community
2/22/17	Birmingham, AL at the BJCC Convention Ctr.	500	DECA* high school students from all over Alabama
2/16/17	Montgomery, AL at BeneChoice Companies	52	CEO Roundtable - local business owners
2/11/17	Bessemer, AL at the New Jerusalem Baptist Church	35	Delta Sigma Theta Sorority, Inc. event for community
2/10/17	Birmingham, AL at the UAB Hill Student Center	12	Teachers, caregivers, community social workers
2/8/17	Eutaw, AL at Greene Co. Board of Education	28	Retired teachers at an AERA meeting
2/6/17	Montgomery, AL at the Embassy Suites Hotel	60	Alabama Council of Assoc. Executives (ACAE)
2/1/17	Montgomery, AL at the Alabama Securities Comm.	35	Governor Appointed Small Business Advisory Committee
1/23/17	Birmingham, AL at Independent Presbyterian Church	35	Local church men's club
1/14/17	Huntsville, AL at the Senior Citizen Center	50	Huntsville Seniors Computer Club
1/4/17	Albertville, AL at Catfish Cabin	18	Retired teachers at an AERA meeting
12/8/16	Montgomery, AL at the Capitol City Club	50	Montgomery Area Assoc. of Government Accountants
11/16/16	Cropwell, AL at Celebrations	120	Partner with M4A* and AARP* to reach senior citizens
11/16/16	Birmingham, AL at Alabama Power on 6th Ave.	45	Partner with FINRA* and NWC3* to train police and detectives
11/16/16	Viewed by audience throughout Alabama	**	Citizens of Alabama watching "When I'm 65" on APTV*
11/15/16	Huntsville, AL at the Embassy Suites	65	Partner with Edward Jones to teach financial professionals
11/10/16	Greensboro, AL at the Hale Cty Board of Education	25	Retired teachers at an AERA meeting
11/6/16	Viewed by audience throughout Alabama	**	Citizens of Alabama watching "When I'm 65" on APTV

Note: Key for asterisked acronyms is on page 33.

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## *Investor Education and Fraud Prevention Outreach Program*

(Continued)

11/1/16	Mountain Brook, AL at Grand Bohemian Hotel	100	Speak to financial professionals at event sponsored by Ameriprise
10/28/16	Decatur, AL at the Community Action Partnership	60	Partner with BBB of N. AL and AARP to reach prof. social workers
10/27/16	Montgomery, AL at the Gordon Persons building	30	AL Examiners of Public Accounts training conference
10/27/16	Montgomery, AL at Dalraida UMC*	25	Retired state employees at an ARSEA meeting
10/25/16	Hoover, AL at the Channel ABC 33/40 TV Station	**	Television call-in program with AARP, police, etc. for the public
10/25/16	Columbiana, AL at the UMC of Columbiana	90	Partner with M4A and AARP to reach senior citizens
10/18/16	Hoover, AL at the Hoover Public Library	130	Partner with FPA* N. AL to promote informed investing to citizens
10/18/16	Santa Fe, NM at the EIFFE* Prevention Program	20	IPT* - Consult & learn on national programs protecting seniors
10/14/16	Guntersville, AL at BancorpSouth	70	Speak at GAP* meetings to protect seniors in local area
10/7/16	Vestavia Hills, AL at the Vestavia Country Club	23	Speak to members of the Civitan club

Explanation of asterisked items:		
*AARP = American Association of Retired Persons		*FINRA = Financial Industry Regulatory Authority
*ACEE = Alabama Council on Economic Edu.		*FPA = Financial Planning Association
*ADSS = Alabama Dept. of Senior Services		*GAP = Marshall County Guardianship Program, Inc.
*AERA = Alabama Education Retirees Association		*IPT = Investor Protection Trust, Washington, DC
*ARSEA = Alabama Retired State Employee's Association		*M4A = Middle Alabama Area Agency on Aging
*AURA = Auburn University Retiree Association		*NARFE = National Active and Retired Federal Employees Assoc.
*BBB = Better Business Bureau		*NASAA = North American Securities Administrators Association
*CAAC = Central Alabama Aging Consortium		*NW3C = National White Collar Crime Center
*CPA = Certified Public Accountant		*SFE&PD = Society for Financial Edu. & Professional Development
*DECA = Distributive Education Clubs of America		*UMC = United Methodist Church
*EIFFE - Elder Investment Fraud & Financial Exploitation		**Exact viewing numbers not available; took about 25 call-ins.
*FBLA = Future Business Leaders of Alabama		

**DURING FISCAL YEAR 2017 THE ALABAMA SECURITIES COMMISSON  
CONDUCTED 75 INVESTOR EDUCATION AND FRAUD PREVENTION  
OUTREACH SEMINARS OR MEETINGS REACHING 7,069 CITIZENS.**

## North American Securities Administrators Association ASC Involvement During FY 2017

The Commission continues its membership with the North American Securities Administrators Association (NASAA). NASAA is the oldest international organization devoted to investor protection. NASAA is a voluntary association whose membership consists of 67 state, provincial, and territorial securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and Mexico.

As a NASAA member, the Commission joins other securities administrators in the promotion of programs focusing on investor education, information sharing, and cooperative enforcement efforts; and, in promoting uniformity of state securities requirements and other actions necessary for effective state and federal securities regulation.



The ASC Director is President for NASAA starting in the fall of 2017. During this FY he served on the Board of Directors, Senior Issues/Diminished Capacity Committee, Legal Services Committee, and the Cybersecurity Committee. He served as NASAA President from September 2001 thru September 2002 and again from September 2006 thru September 2007. He has served for fifteen years as a member of the Board of Directors and held previous positions with NASAA to include Chair of Enforcement, Chair of International Committee, Treasurer, Ombudsman and member of the Uniform Securities Act Committee.

ASC staff members have participated in committees and project groups, comprised of regulatory counterparts from other states and countries, to develop policy guidelines and to consider issues of financial education, registration, licensing, litigation and enforcement.

NASAA programs are carried out through its various committees and project groups. During FY 2017, ASC staff served on or participated in the following: Cybersecurity Committee, Legal Services Committee, Senior Issues/Diminished Capacity Committee, State Legislation Committee, Arbitration Project Group, Business Organizations & Accounting Project Group, Direct Participation Programs Policy Project Group, Enforcement Technology Project Group, Exempt Offerings Investigations Project Group, Life Stages Project Group, Litigation Forum Project Group and Operations Project Group.

The Commission intends to continue active participation on various NASAA committees, which, in coordination with the SEC, FINRA, NASDAQ, NYSE, industry representatives, the accounting and legal professions, and other related groups, have promulgated national uniform standards and guidelines. The adoption of these uniform policies alleviate burdens on those sectors of the securities industry by eliminating duplicative examination and registration requirements, thus reducing the amount of time, money, effort, and paperwork required, and achieving less costly and more effective regulation of the industry. Such guidelines apply to the following types of securities activities and filings: licensing, registration, audits, oil and gas, real estate, real estate investment trusts, commodity pools, equipment leasing, health care facilities programs, offerings on the Internet, and others.





# ALABAMA

## Securities Commission

Joseph P. Borg, Director

### ENFORCEMENT HEADLINE SUMMARIES

FROM FISCAL YEAR 2017

(Alphabetical by County)

To read complete articles and more go to: [www.asc.alabama.gov](http://www.asc.alabama.gov)

#### **Baldwin County**

##### **Community Education Program for Seniors Held in Robertsdale, Alabama Special Guest U.S. Rep. Bradley Byrnes Attends and Addresses Key Issues**

MONTGOMERY, ALABAMA (August 24, 2017) U.S. Rep. Bradley Byrne, together with officials from the Alabama Securities Commission (ASC), the Alabama Department of Senior Services (ADSS), South Alabama Regional Planning Commission (SARPC) and the City of Robertsdale, hosted a Community Education Program for Seniors on August 23, 2017 at PZK Hall in Robertsdale. More than 70 seniors from the Greater Baldwin County area heard comments and presentations addressing issues of importance to their long-term social, medical and financial well-being.

Julie McGee, Director of SARPC's Area Agency on Aging, welcomed attendees, speakers and vendors and introduced long-time Robertsdale Mayor, Charles Murphy. After welcoming comments, Mayor Murphy introduced the day's special guest, Rep. Bradley Byrne who spoke about the challenges facing Alabama's seniors and the role federal, state and local lawmakers play in helping seniors.

Emily Marsal, General Counsel of ADSS, spoke on the various programs that the Alabama Department of Senior Services offered and highlighted some of the statistics which indicate a better quality of life for Seniors who are being served by these programs. She also spoke about the work of the Interagency Council for the Prevention of Elder Abuse and the recent efforts in the past session to pass the Elder Abuse Protection Order and Enforcement Act.

Joseph Borg, Director of ASC, spoke about the role that the Alabama Securities Commission plays in helping protect the long-term financial well-being of Alabama's seniors. Speaking about "How to Protect Yourself from Financial Fraud," Borg described the many dangers that seniors face from a multitude of illicit schemes and fraudulent sales pitches targeting their retirement savings and investments.

##### **Arizona Man Pleads Guilty to Securities Fraud Charges**

MONTGOMERY, ALABAMA (May 18, 2017) Larry Busch, of Anthem, Arizona, pleaded guilty in Baldwin County Circuit Court, on April 27, 2017, to one count of Conspiracy to Commit Securities Fraud for agreeing with others, including previously convicted Baldwin County resident Richard James Tucker, to defraud investors by employing a device, scheme, or artifice to defraud in connection with the

*(Continued on next page)*

## ENFORCEMENT HEADLINE SUMMARIES *(Continued)*

offer and/or sale of securities. The offense is a Class C felony, punishable by a term of not more than 10 years or less than 1 year and 1 day imprisonment, and a fine not to exceed \$15,000. After the plea was entered, The Honorable Circuit Court Judge Scott P. Taylor sentenced Busch to a term of imprisonment of one year and one day.

The sentence was ordered to be served concurrently with a one year sentence Busch is currently serving in Arizona on related convictions. Judge Taylor further ordered Busch to pay court costs and fees. Restitution to the victims was already awarded in the Arizona case. As part of the plea, Busch also consented to be permanently barred from the securities industry in Alabama. The Alabama cases against Busch and over a dozen co-conspirators in two counties were the result of the coordination of multiple investigations by Alabama, Arizona, Federal, and international authorities.

The investigations looked into a large group of perpetrators of investment fraud, and have resulted in more than 20 felony convictions in Alabama, Arizona, California, and Italy. Busch was indicted by the Baldwin County Grand Jury in December 2014. Busch acted as an attorney “paymaster” and received investment funds into his attorney trust and escrow accounts that were solicited from investors by his co-conspirators.

The coconspirators represented to victim investors that they could secure financing for various projects by investing in standby letters of credit, bank guarantees, commodities trading programs and other investment products. The co-conspirators represented to investors that their funds would remain safe in Busch’s accounts until the investments matured. Instead, all of these programs were fictitious, and the invested funds were almost immediately wired out of Busch’s accounts to the various co-conspirators where they were spent on personal expenses. The participation of Busch, claiming to hold funds in his attorney accounts, was a major factor that lulled investors into believing their investments were secure. Neither Busch, his co-conspirators, nor any of the securities they sold, were registered with the ASC, as required by Alabama law.

### **Louisiana Man Pleads Guilty to Securities Registration Charge in Baldwin County, Alabama**

Feb. 2, 2017. On January 30, 2017, Bruce Alexander Gwyn of Metairie, Louisiana pleaded and was adjudicated guilty in Baldwin County Circuit Court to one count of Sale of Securities by an Unregistered Agent. The securities registration charge is a Class C felony, punishable by a possible prison sentence of one year and a day to 10 years’ incarceration and not more than a \$15,000 fine per charge, upon conviction. Gwyn is scheduled to be sentenced on March 23, 2017, and must pay restitution of \$20,000 and \$25,000 to the two victims (\$45,000 total) prior to sentencing.

Gwyn remains out on bond prior to sentencing. The charges against Gwyn resulted from two indictments by the Baldwin County Grand Jury, issued in August 2015 and February 2016, related to the offer and sale of securities, described as limited partnership interests in Level III Trading Partners, L.P., to approximately 20 investors nationwide, including the two Alabama citizens referenced as victims in the indictments. ASC records revealed that, at the time of the offense, Gwyn was not registered with the Commission to offer and/or sell securities legally into, within, or from Alabama, as required by law.

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## ENFORCEMENT HEADLINE SUMMARIES (*Continued*)

### **California resident, Deshaun Williams, Pleads Guilty to Securities Violations in Baldwin County, Alabama Circuit Court**

October 3, 2016. Deshaun Williams, a California resident, pled guilty to one count of Sale of a Security by an Unregistered Agent, a Class C felony, punishable by imprisonment of not less than one year and not more than 10 years, and up to a \$15,000 fine per charge upon conviction. Williams' plea was followed by the State of Alabama recommending a two-year sentence and a permanent bar to conduct securities business within, into or from Alabama.

Williams has been incarcerated in Baldwin County, Alabama since March 31, 2016. In January, 2009, Williams and another California resident, together with Richard James Tucker of Fairview, Alabama, who was the CEO of Synergy Finance Group, LLC, an Alabama company, offered multiple unregistered investment contracts in "international trading platforms" to potential investors. Thereafter, Tucker offered the same promises to entice victims to send investment funds to Synergy Finance Group, LLC, promising exorbitant returns. On April 13, 2012, Tucker was convicted of 13 felony counts of securities fraud in Baldwin County, Alabama Circuit Court.

An ASC Enforcement Division investigation also concluded that no investment program pitched by Synergy Finance Group, LLC ever realized a profit for investors. A review of ASC registration records also indicated that Williams was not registered to conduct securities business within, into or from Alabama, as required by the Alabama Securities Act.

### **Henry County**

#### **Henry County: Man Arrested for Alleged Alabama Securities Act Violations**

June 20, 2017. Benjamin Wayne Morehead, a resident of Baldwin County, Alabama, turned himself in, on May 23, 2017, to the Henry County Jail upon an arrest warrant based on an indictment returned by the March, 2017, Henry County Grand Jury; Morehead was released on a \$20,000 bond.

Charges against Morehead include one (1) count of Conspiracy to Commit Securities Fraud, and one (1) count of Sale of Securities by an Unregistered Agent and one (1) count of Sale of Unregistered Securities. Additionally, Morehead's charges include one (1) count of Fraud in Connection with the Sale of Securities, more specifically described as omitting to state material facts and making untrue statements of material facts to investors.

The conspiracy and registration charges counts are Class C felonies, punishable by a possible maximum of 10 years imprisonment and a \$15,000 fine per charge, upon conviction. The Securities Fraud charge against Morehead is a Class B felony, punishable by a possible prison sentence of from two to 20 years' and a \$30,000 fine per charge upon conviction.

#### **Henry County Woman Arrested for Alleged Alabama Securities Act Violations**

June 20, 2017. Judy Kay Morehead, a resident of Henry County, Alabama, turned herself in, May 24, 2017, to the Henry County Jail upon an arrest warrant based on an indictment returned by the March, 2017, Henry County Grand Jury; Morehead was released on a \$40,000 bond.

Charges against Morehead include one (1) count of Conspiracy to Commit Securities Fraud and one (1) count of Sale of Securities by an Unregistered Agent. Additionally, Morehead is charged with one (1) count of Engaging in an Act, Practice, or Course of Business Which Operates or Would Operate as a Fraud or Deceit

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## ENFORCEMENT HEADLINE SUMMARIES *(Continued)*

Upon Any Person; and two (2) counts of Fraud in Connection with the Sale of Securities, more specifically described as omitting to state material facts and making untrue statements of material facts to investors.

The conspiracy and registration charges are Class C Felonies, punishable by a possible maximum of 10 years imprisonment and a \$15,000 fine per charge, upon conviction. All other charges against Morehead are Class B felonies, punishable by a possible prison sentence of from 2 to 20 years and a \$30,000 fine per charge, upon conviction.

### **Henry County Man Arrested for Alleged Alabama Securities Act Violations**

June 20, 2017. Stanley Wayne Morehead, a resident of Henry County, Alabama, turned himself in, on May 24, 2017, to the Henry County Jail upon an arrest warrant based on an indictment returned by the March, 2017, Henry County Grand Jury; Morehead was released on a \$25,000 bond.

Charges against Morehead include one (1) count of Conspiracy to Commit Securities Fraud, one (1) count of Engaging in an Act, Practice, or Course of Business Which Operated as a Securities Fraud, and one (1) count of Fraud in Connection with the Sale of Securities, more specifically described as omitting to state material facts and making untrue statements of material facts to investors. The conspiracy count is a Class C Felony, punishable by a possible maximum of 10 years imprisonment and a \$15,000 fine per charge, upon conviction.

All other charges against Morehead are Class B felonies, punishable by a possible prison sentence of from two to 20 years and a \$30,000 fine per charge, upon conviction.

### **Jefferson County**

#### **Warren, Michigan Man Pleads Guilty to Conspiracy to Commit Securities Fraud**

April 20, 2017. On April 11, 2017, before Circuit Court Judge Clyde E. Jones, Robert Craig Rudder, of Warren, Michigan, plead guilty to one count of Conspiracy to Commit Securities Fraud, a Class C felony, punishable from one year and a day to 10 years' imprisonment and a \$15,000 fine per charge upon conviction. The Alabama Securities Commission recommended a sentence of three years imprisonment with conditions that Rudder fully cooperate with any further state or federal investigations, pay \$600,000 restitution and be permanently barred from any future work in the securities industry.

Rudder made application for probation and remains in the Jefferson County Jail. Rudder and his co-conspirators fraudulently solicited prospective investors to purchase shares of stock in Omega Pharmaceutical, Inc., a Birmingham company. Rudder further misled investors that their investments would produce immediate returns when his company, RCR Holdings, a Michigan corporation, would obtain funding to purchase Omega Pharmaceutical, Inc. An ASC Enforcement Division investigation revealed that, in fact, no company existed that would actually provide the funding.

#### **Michigan Man Arrested for Alleged Violations of Alabama Securities Act**

Mar. 2, 2017. Robert Craig Rudder of Warren, Michigan, was arrested on Feb. 28, 2017 by the Special Operations Unit of the Warren, Michigan Police Department, under the direction of Deputy Commission-

*(Continued on next page)*

## ENFORCEMENT HEADLINE SUMMARIES (*Continued*)

er, Matthew Nichols. Rudder's arrest stems from an October, 2016 Jefferson County, Alabama Grand Jury indictment charging him with multiple violations of the Alabama Securities Act. Rudder is currently in custody in Michigan, under a \$130,000 bond, pending extradition to Jefferson County.

The Grand Jury indictment charged Rudder with eleven total counts, including one count of Conspiracy in the Fraudulent Sale of Securities; six counts of Sale of Securities by an Unregistered Agent and the Sale of Unregistered Securities; and three counts of Fraud in Connection with the Sale of Securities (making untrue statements of material fact or omitting to state a material fact), and one count of employing a device, scheme or artifice to defraud investors. The securities registration charges are Class C felonies, punishable by possible imprisonment from one year and one day to 10 years and not more than a \$15,000 fine per charge upon conviction. The remaining charges are Class B felonies, punishable by possible imprisonment of from two to 20 years and up to a \$30,000 fine per charge upon conviction.

The indictment and arrest of Rudder alleged illegal securities transactions involving shares of stock in Omega Pharmaceutical, Inc. ASC records indicated that Rudder was not registered with the Commission to lawfully offer and/or sell securities within, into or from Alabama; and that stock shares of Omega Pharmaceutical, Inc., were not registered with the Commission as required by law.

### **South Carolina Man Arrested for Alabama Securities Act Violations**

December 5, 2016. Michael Wallace Fullard, a North Myrtle Beach, South Carolina resident, was arrested on November 29, 2016 by Yavapai County, Arizona Sheriff's deputies. Fullard's arrest stems from a June, 2016 Jefferson County Grand Jury indictment charging Fullard with multiple violations of the Alabama Securities Act. Fullard is currently being extradited from Arizona.

Specifically, Fullard is charged with three (3) counts of Fraud in Connection with the Sale of Securities (making untrue statements of material fact, omitting to state a material fact, and operating a fraudulent scheme). All of these counts are Class B felonies, punishable by possible imprisonment of from two to 20 years' and up to a \$30,000 fine per charge upon conviction. Fullard is also charged with one (1) count of Conspiracy to commit securities fraud which is a Class C felony under Alabama law, punishable by a possible sentence of one to 10 years' imprisonment and up to a \$15,000 fine per charge upon conviction. The indictment and arrest of Fullard alleges that Fullard committed several unlawful securities transactions involving investment contracts through Omni Financial LLC, a Jefferson County corporation.

ASC records revealed that Fullard was not registered with the Commission to be able to lawfully offer and/or sell securities within, into or from the State of Alabama. ASC records also revealed that the investment contracts or securities through Omni Financial LLC, were not registered with the Commission, as required by law.

### **Limestone County**

#### **Muscle Shoals Insurance Salesman Arrested for Alleged Insurance Fraud and Financial Exploitation of an Elderly Person**

MONTGOMERY, ALABAMA (September 1, 2017) Brian C.T. Jones, District Attorney for the 39th Judicial Circuit, Limestone County, Alabama; James Ridling, Commissioner of the Alabama Department of

*(Continued on next page)*

## ENFORCEMENT HEADLINE SUMMARIES (*Continued*)

Insurance; and Joseph Borg, Director of the Alabama Securities Commission (ASC) announced today that Ronald “Ronny” Warren Powell, age 55, of Muscle Shoals, Alabama surrendered to authorities at the Limestone County Jail on August 30, 2017.

The indictment and arrest of Powell alleges that Powell did with the intent to defraud or conceal material information about the embezzlement, theft, or conversion of monies and/or premiums related to the transaction of the business of insurance cause a loss in excess of \$1,000. The indictment also alleges that Powell committed the crime of financial exploitation of an elderly person involving property exceeding \$2,500 in value.

DA Jones, Commissioner Ridling, and Director Borg complemented the agents and employees of their respective organizations for their “outstanding teamwork and collaboration in the investigation of the case.”

### **Madison County**

#### **Madison County Woman Indicted for Violations of Alabama Securities Act**

June 16, 2017. Kimgirl Joy Bias, also known as Kimberly Joy Dixon Scott, of Huntsville, was indicted by a May 2017 Madison County, Alabama Grand Jury for multiple violations of the Alabama Securities Act. Bias is currently incarcerated in Ohio on unrelated charges. The State of Alabama is currently seeking to have Bias returned to Madison County to face the securities charges.

The indictment against Bias charged her with one count each of Sale of Unregistered Securities and Sale of Securities by an Unregistered Agent. Additionally, Bias was charged with one count of Fraud in Connection with the Sale of Securities (employing a device, scheme or artifice to defraud) and one count of Theft by Deception, 1st Degree. The registration charges are Class C felonies, punishable by incarceration in the state penitentiary between one year and a day to no more than 10 years, and a possible \$15,000 fine per charge upon conviction. The fraud and theft charges are Class B felonies, carrying a possible sentence of not less than two years and not more than 20 years’ incarceration and a possible fine of \$30,000 per charge, upon conviction.

The indictment alleges that Bias, acting as an agent for Modernday Multimedia, Inc., a Huntsville company, illegally offered and sold shares of stock to an out-of-state investor without being registered with the ASC to offer or sell investments within, into or from Alabama, as required by the Alabama Securities Act. The indictment further alleges that Defendant told the victim in exchange for the investment they would receive significant returns of \$100,000 within a short period of time, which the victims never received, nor did they receive the principal amount of their invested funds.

#### **Baldwin County, Alabama Man Arrested for Alleged Alabama Securities Act Violations**

May 25, 2017. James W. Strickhausen, a resident of Baldwin County, Alabama, turned himself in to the Madison County, Alabama Sheriff’s Department on May 18, 2017. Strickhausen was arrested based on a March, 2017 Madison County Grand Jury indictment alleging violations of the Alabama Securities Act. Strickhausen was later released on \$1,500 bond. Charges against Strickhausen include one count of

*(Continued on next page)*

## ENFORCEMENT HEADLINE SUMMARIES *(Continued)*

Conspiracy to Commit Securities Fraud; and two counts of Fraud in Connection with the Sale of Securities (employing a device, scheme or artifice to defraud and making untrue statements of material facts/omitting to state material facts). The Conspiracy charge is a Class C felony, carrying a possible prison sentence of one year and one day to 10 years and a possible \$15,000 fine per charge, upon conviction. The securities fraud charges are Class B felonies, punishable by a possible prison sentence of two to 20 years and a possible \$30,000 fine per charge, upon conviction.

The indictment of Strickhausen is related to an investigation of Gatekeeper Investment Group, LLC, a Baldwin County, Alabama company.

### **Announcements and Investor Alerts**

#### **INVESTOR ALERT: Alabama Securities Commission Issues Binary Options Advisory**

MONTGOMERY, ALABAMA (September 13, 2017) The Alabama Securities Commission (ASC) is cautioning investors about schemes related to binary options amid the proliferation of online binary option platforms and a growing number of related investor complaints. The advisory provides information and resources to help investors better understand binary options, their risks and where to turn for help.

The advisory (see pages 2-4) also discusses common investor complaints and offers common tactics and warning signs of schemes related to binary options, including: unsolicited investment offers; high-pressure sales tactics; personal information requests; and a lack of information about the offering firm or its management.

The full advisory is available on the ASC website, [www.asc.alabama.gov](http://www.asc.alabama.gov). Before making any financial decisions, ask questions, do your homework and contact the Alabama Securities Commission, toll-free, **1-800-222-1253**.

#### **Alabama Veterans Face a Serious Threat: Financial Scammers**

MONTGOMERY, ALABAMA (August 29, 2017) After valiantly serving and protecting our country, Alabama veterans, like their counterparts throughout the United States, are facing a damaging threat from a dangerous enemy. Increasingly, Alabama veterans are prominent targets for unscrupulous salespersons or con artists who use aggressive and often illegal sales practices to entice the veteran to spend their pensions or hard-earned savings.

Alabama veterans have not been immune to fraudsters' efforts, as cases investigated and prosecuted by the Alabama Securities Commission (ASC) can attest. An 86 year-old retired U.S. Air Force pilot and a 91 year-old retired World War II U.S. Navy veteran lost several hundred thousand dollars in a bogus investment opportunity offered by a former North Alabama attorney. An ASC investigation revealed that both veterans were offered promissory notes in exchange for their money which was to be invested in real estate and medical technology ventures with returns to be paid at a specified time. The veterans were also promised returns from 8-12 percent on their investments. However, the financial analysis concluded that the culprit used the majority of investor funds to pay previous investors in a Ponzi-type scheme and for his personal benefit. Upon investigation by the ASC's Enforcement Division and subsequent prosecution by the agency's Legal Division, the defendant pled guilty to three counts of Securities Fraud, was sentenced to 20 years imprisonment, split to serve five years in the state penitentiary, and ordered to pay more than \$4 million in restitution to multiple victims.

*(Continued on next page)*



(Continued)

## **Alabama Legislature Passes Bill to Modernize Regulation of Money Transfers Governor Ivey Signs Into Law (Effective on August 1, 2017)**

MONTGOMERY, ALABAMA (August 16, 2017) The Alabama Legislature passed SB173/HB215 during the last week of the General Session on May 17, 2017 and Governor Kay Ivey signed the bill into law which became effective on August 1, 2017.

State Senator Arthur Orr (R), 3<sup>rd</sup> District and Representative Ken Johnson (R), 7<sup>th</sup> District, sponsored bills in the House and Senate which passed the Legislature. The bill, entitled "The Alabama Monetary Transmission Act," (Code of Alabama, 1975 8-7a-1, et seq) was drafted by the Alabama Securities Commission (ASC) and replaces the former Sale of Checks Act which has been in effect since 1961.

The new law modernizes the former law which lacked administrative and enforcement authority, and did not adequately address modern technology. The Act governs non-banking entities that engage in the business of selling, issuing or otherwise dispensing checks or transfers of money on behalf of individuals who may regularly use these services. The law also covers debt management services that receive money from obligors for the purpose of paying the obligors' bills or accounts. The new law exempts banks, bank holding companies, securities-clearing firms, payment system and settlement processors, broker-dealers, federal, state, county and municipal government entities, commodities boards of trade and registered futures commission merchants.

ASC Director, Joseph Borg said, "This Commission sincerely thanks Senator Orr and Representative Johnson for their sponsorships of this important legislation; and Governor Ivey for signing the bill into law. This significant legislation will help streamline our regulatory and enforcement activities to meet the challenges presented by modern technology, such as the use of cybercurrency, online money transmissions and further assists law enforcement in preventing money laundering and activities involving the illegal international transfer of funds."

### **ASC in National News Headlines**

## **ThinkAdvisor**

SEPTEMBER 27, 2017

## **Alabama Securities Director Borg Steps Up as NASAA President**

Borg starts one-year term, notes growing BD interest in NASAA Model Fee Disclosure Schedule

**InvestmentNews**

## **Treasury calls on financial regulators to coordinate cybersecurity oversight**

Jun 14, 2017 @ 2:09 pm By [Mark Schoeff Jr.](#)

State regulators also have increased their scrutiny of advisory firms' cyber defenses. State participation in the Financial and Banking Information Infrastructure Committee helps to get the regulators on the same page, according to Joe Borg, Alabama securities director and president-elect of the North American Securities Administrators Association.

(Continued on next page)

(Continued)



## Fiduciary Rule For Annuities?

JUNE 13, 2017 • TED KNUTSON

Borg said it is important for the regulators to recognize that cybersecurity protections that may be appropriate for large investment advisory firms may not be for smaller operations. He warned the annuities industry attendees that insurance sales people can cross the line in promoting life insurance and violate the law.

# The New York Times

RETIREMENT

## Declaring War on Financial Abuse of Older People

Retiring By ELIZABETH OLSON APRIL 14, 2017

Alabama passed the Protection of Vulnerable Adults from Financial Exploitation Act, to add a layer of protection to existing laws by requiring brokers and investment advisers who believe a vulnerable adult is being exploited to notify the Human Resources Department and the Alabama Securities Commission.

.76 -0.01% Nasdaq ▲ 5802.73 0.15% U.S. 10 Yr ▲ 6/32 Yield 2.396% Crude

# THE WALL STREET JOURNAL.

U.S. Edition ▼ | March 22, 2017 | Today's Paper

## What You Won't Learn From One Wall Street Watchdog Report

### Brokerage files

Brokerage files published online by financial-services's selfregulator omit legal settlements firms negotiated with clients.

"It's a gap that in my opinion should be filled," said Joe Borg, director of the Alabama Securities Commission and president-elect of the North American Securities Administrators Association."



JOSEPH P. BORG  
Director

EDWIN L. REED      STEPHEN P. FEAGA  
Deputy Director      Deputy Director  
Administration      Enforcement

AMANDA W. SENN  
General Counsel

## ALABAMA SECURITIES COMMISSION

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Commissioner of  
Insurance

MARLENE M. MCCAIN  
Certified Public  
Accountant

S. DAGNAL ROWE  
Attorney at Law

R. AUSTIN HUFFAKER, Jr.  
Attorney at Law

## ALABAMA SECURITIES COMMISSION MEETING September 13, 2017

The Alabama Securities Commission held a meeting on September 13, 2017 at 10:00 a.m. in the main conference room of the Alabama Securities Commission offices, 2nd Floor of the Center for Commerce Building, 401 Adams Avenue, Montgomery, Alabama. Notice of the time and place of this meeting was published with the Secretary of State.

### Commission Members Present:

Hon. James Hart, CPA – Chairman  
Hon. Matt Bledsoe (Office of the Attorney General)  
Hon. Mike Hill (Banking Commissioner)  
Mr. Jim Ridling (Insurance Commissioner)  
Hon. Marlene M. McCain, CPA  
Hon. Austin Huffaker, Jr., Attorney at Law

### Commission Members Absent:

Hon. Steven Marshall (Attorney General)  
Hon. Dag Rowe, Attorney at Law

### Staff Members Present:

Hon. Joseph Borg, Director  
Hon. Steve Feaga, Deputy Director, Enforcement  
Hon. Edwin Reed, Deputy Director, Administration  
Hon. Amanda Senn, General Counsel  
Ms. Lisa Tolar, Registration Manager  
Ms. Rena Davis, Registration Manager  
Hon. David Byrne, Attorney III  
Ms. Christie Rhodes, Executive Assistant

### Public Attendees/Guests:

No guests in attendance.

The meeting was called to order at 10:09 a.m. by Commissioner Hart, Chairman and the Chair noted that there was a quorum present. Chairman Hart asked for a roll call and each present member (as detailed above) was accounted for. Chairman Hart asked for a motion to

approve the current agenda and minutes and a motion was made by Commissioner Ridling to approve the meeting agenda, as well as the minutes of the previous meeting held June 19, 2017 which was seconded by Commissioner Huffaker. The motion carried unanimously.

Chairman Hart asked Director Borg to begin his report. Director Borg introduced Hon. Davie Byrne, Attorney at Law to the Commission. Mr. Byrne comes to the Commission from the Office of the Governor and he was welcomed to the Commission. Director Borg then outlined for the Commission the employees that were retiring from the Commission and informed the Commission of some new hires coming on board. At that time, Director Borg began discussing the monthly report. Director Borg discussed the Accounting Department, Registration Division, and the Enforcement Division sections of the monthly report. Director Borg concluded the monthly report with a summary of the activities with regard to Training and Travel of the staff then went on to detail the activities of the Public Affairs and Education Division.

Director Borg then gave the Commission members an update on the Department of Public Examiners Exit Report for the Alabama Securities Commission and a short discussion was had on the possible move to another RSA building in approximately 11 months.

Ms. Lisa Tolar, Manager of the Auditing Registration Division, gave a brief report with regard to her Division. (Copy attached hereto)

Ms. Rena Davis, Manager of Licensing Registration Division, gave a brief report regarding her Division (Copy attached hereto).

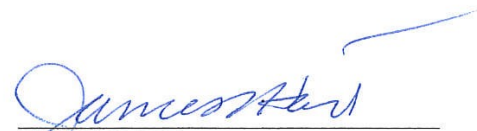
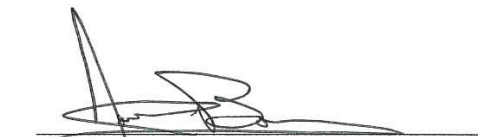
General Counsel Senn left the meeting at 11:16 am to attend another out of office meeting.

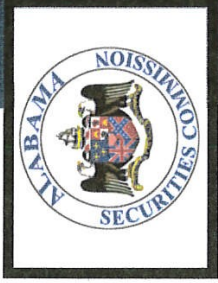
Director Borg then advised the Commission that pending litigation and confidential enforcement matters needed to be discussed. Accordingly, Deputy Director Reed (a licensed attorney in Alabama), certified that one of the exceptions of the Open Meetings Act applied, in

that pending litigation would be discussed. Deputy Director Feaga estimated the Executive Session would last approximately fifteen (15) minutes. At that time, Commissioner McCain moved to go into Executive Session. Said motion was seconded by Commissioner Ridling and the meeting went into Executive Session at 11:17 a.m. after a unanimous vote of all present Commissioners. The following Commissioners voted unanimously to enter Executive Session: Hart, Hill, Huffaker, Ridling, and McCain.

At 11:29 a.m., the open meeting was reconvened and the Executive Session ended by motion of Commissioner Hill and seconded by Commissioner Huffaker and a unanimous vote by all present Commissioners. The following Commissioners voted unanimously to exit Executive Session: Hart, Hill, Huffaker, Ridling, and McCain . Each Commissioner that was present at the beginning of the Executive Session was present when the Executive Session ended.

The final meeting item was a motion to pay expenses for the Commissioners. Motion was made by Commissioner Ridling and seconded by Commissioner McCain. The motion carried unanimously. Motion to Adjourn was then made by Commissioner McCain and seconded by Commissioner Hill and was unanimously carried. The meeting adjourned at 11:30 a.m.

  
JAMES HART  
CHAIRMAN  
JOSEPH BORG  
DIRECTOR



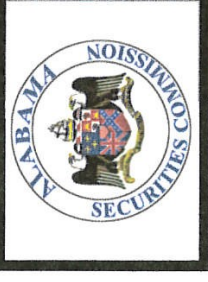
# ALABAMA SECURITIES COMMISSION BOARD MEETING

REGISTRATION  
& LICENSING

September 13, 2017



# Staff Composition

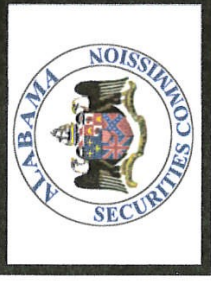


## •STAFF MEMBERS:

- Manager
- 2 Supervisors (assist in training all staff)
- 4 Securities Analysts
  - 3 regulatory and/or securities experience
  - 1 CPA
- 3 Support Personnel
  - 1 Secretary
  - 2 Clerical - process files

# TYPES OF FILINGS

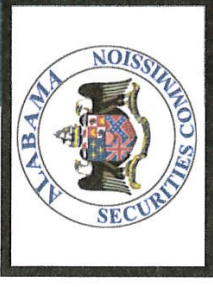
- Broker Dealer
- Broker Dealer Agents
- Investment Advisor
- Investment Advisor Representative
- Exemptions
  - Eleemosynary
  - Regulation D (Rules 505 & 506(b) and 506(c))
  - Expansion Orders
  - Crowdfunding – state and federal
  - Regulation A – Tiers I and II
  - Industrial Revenue Bonds



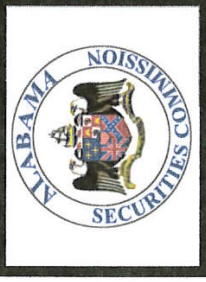
# TYPES OF FILINGS

- Registration of Securities
  - Qualification
  - Coordination
    - Oil & Gas Programs
    - Non-traded REITs
    - Business Development Companies
- Mutual Funds
  - Closed end
  - Open end
  - Unit investment trusts
- Money Transmitters

New Act Effective August 1, 2017



# PERFORMANCE FYE 2016

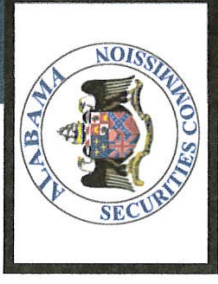


	Approved	Renewed
Broker Dealers	92	1,485
Investment Advisers		
• State Registered	23	133
• Federal Registered	89	1,095
Broker Dealer Agents	28,841	119,202
Investment Adviser Reps	1,054	4,922
Total Exemptions	784	-
Mutual Funds	2,051	7,230
Securities Registrations	57	-
Issuer/Restricted Agents	40	278
Sale of Checks	16	136



# New Issues

- Federal Crowdfunding
- Money Transmitters & Electronic  
Currency – New Act
- Electronic Files





## ASC Auditing and Examination Division



### About Examinations:

- Our goal in conducting examinations is to **protect** investors and legitimate securities business in Alabama.
- The Commission's authority to conduct examinations of securities firms is provided by Code of Alabama, 1975, Section 8-6-3 (i) which provide the basis for both routine and for cause examinations.
- The cornerstone of an examination is formed by the review of a firm's books and records and a review of the firm's supervisory procedures.



## About Examinations:



- Examinees:
  - Investment Advisers
  - Broker Dealers
  - Money Transmitters
- Alabama Securities Act and Commission Rules
- Violations, Deficiencies & Sales Practice Weaknesses

## About Examinations:



### Types of Exams

- Routine
- For-Cause
  - Investigations
  - Complaints
  - Industry Trends
  - New Products
  - Licensing Issues
- Joint
  - SEC, FINRA
  - Other States' Securities Divisions
- NASAA Coordinated Exam Projects

## About Examinations:



- Approximately 50-60 Exams Annually
- Investment Advisers - 3 Year Cycle
- Watch List – More Frequent Exams
- New Registrants – 1<sup>st</sup> Year of Registration

## About Examinations: The Process



- ✓ **Pre – Exam**
  - Licensing Records
  - CRD Registration Records
  - Advisory Services Review
    - Assets Management Only
    - Financial Planning & Asset Management
    - Financial Planning Only
    - Solicitation for Other Advisers & Asset Management
    - Solicitation for Other Advisers Only
    - Pay Solicitors for Referrals
    - Manager or Adviser for Hedge Fund
  - Discretionary Authority - When the holder of an account gives someone else the authority to buy and sell securities, either absolutely or subject to certain restrictions.

### About Examinations: The Process – cont'd



- AUM
- Number of Clients
- Fee Structure
- Investment Strategy
- Agreement /Contract
- Custody – When an adviser holds, directly or indirectly, client funds or securities or has the ability to obtain possession of them.
- Potential Conflicts of Interest
- Review Previous Financial Statements
- Review Previous Examination Records
  - Findings/Violations Noted
  - Resolution to Previous Findings/Violations

### About Examinations: The Process – cont'd



- Review of Direct and Indirect Owners
- Background Research
  - Disciplinary Records
  - Heightened Supervision
  - Enforcement Indices Check
  - Internet Search
    - ☐ Firm and Agents/Representatives
    - ☐ Social Networks (LinkedIn, Facebook, etc.)
    - ☐ IA/BD Website
    - ☐ Secretary of State Website

## About Examinations: The Process - cont'd



### ✓ On-Site

- Tour Office – Walk Through
- Demonstration of Placing Trades
- Conduct Interviews
- Regarding Personnel
- Nature of Firm's Business
- Products
- Operations
- Security
- Cybersecurity
- Fees/Compensation
- Review and Collect Books and Records
- Financial Statements
- Confirm Appropriate Registration – Firm & Employees
- Brochure Delivery/Disclosure Document
- Contracts/Agreements

## About Examinations: The Process – cont'd



- Correspondence
  - Hardcopy
  - Electronic
- Complaints
- Advertising
- Supervision
- Privacy Policies
- Investment Activity
  - Suitability
  - Unauthorized Trading
  - Excessive Trading
  - Exploitation of Seniors
  - Use of Soft Dollars - Soft dollar practices
    - involve using client brokerage commissions to purchase research that helps adviser make investment decisions.
  - Preferential Trades for Certain Clients

## About Examinations: The Process – cont'd



- Custody Issues
  - Physical Custody
  - Direct Fee Deduction
  - Power of Attorney
  - General Partner Hedge Fund
  - Trustee or Executor
  - Signatory Authority
  - Account Access - User ID/Password
- Appropriate Bonding
- Required Minimum Net Capital
- Discretion Issues
- Dishonest & Unethical Practices
- Gather Documents/Disseminate Info
- Exit Interview

## About Examinations: The Process – cont'd



### ✓ Post Exam

- Analyze All Documents & Information Collected
- Contact Custodian – Verify Assets/Valuations
- Review Customer Statements
- Review Transactions Logs
- Review All Client Records
- Issue Exam Reports and/or Deficiency Letters

### ✓ Resolution

- *Give the Registrant an Opportunity to Resolve the Exam Findings; or*
- *Take Administrative Action; or*
- *Refer to Enforcements*



### **Common Deficiencies**



- Unsuitable Transactions
- Non Compliance With Firm's Policies & Procedures
- Lack of Business Continuity Planning
- Inadequate Training on Complex Products
- Cybersecurity – measures taken to protect computers or systems from unauthorized access
- Misleading Advertising
- Unregistered Reps
- Inflated AUM
- Failure to Disclose OBA
- Inaccurate fees - Don't Agree With Contract
- Custody Issues - when an adviser has direct or indirect access to client funds or securities
  - Signatory Authority
  - Trustee or Executor
  - Power Of Attorney
  - Adviser Has Passwords/Pin #

### **About Examinations:**



#### **Effective Examinations**

- Promote Strong Compliance Culture
- Promote High Ethical and Business Standards
- Target Potential Risk Areas to Prevent Problems
- Prevent or Reduce the Occurrence of Violations
- Decrease and Prevent Investor Harm and Financial Losses
- Detect Fraud and Abuse



## Staffing:



- Manager
- Supervising Analyst
- 4 – Examiners
- 1 – Utility Analyst (Shared)
- 1 – Support Staff

## Performance:

Calendar Year 2016



### Investment Advisers

Routine ..... 35

### Broker Dealer

Routine..... 04

For Cause..... 06

**Money Transmitters..... 13**

**Total 58**



**ASC  
Auditing and  
Examination Division**



JOSEPH P. BORG  
Director

EDWIN L. REED  
Deputy Director  
Administration

STEPHEN P. FEAGA  
Deputy Director  
Enforcement

AMANDA W. SENN  
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Attorney General ✓

MIKE HILL  
Superintendent of Banks

JIM L. RIDLING  
Commissioner of  
Insurance

MARLENE M. McCAIN  
Certified Public  
Accountant

S. DAGNAL ROWE  
Attorney at Law

R. AUSTIN HUFFAKER, Jr.  
Attorney at Law

## ALABAMA SECURITIES COMMISSION MEETING June 19, 2017

The Alabama Securities Commission held a meeting on June 19, 2017 at 10:00 a.m. in the main conference room of the Alabama Securities Commission offices, 2nd Floor of the Center for Commerce Building, 401 Adams Avenue, Montgomery, Alabama. Notice of the time and place of this meeting was published with the Secretary of State.

### Commission Members Present:

Hon. James Hart, CPA – Chairman  
Hon. Bill Garrett (Attorney General Representative)  
Hon. Mike Hill (Banking Commissioner)  
Hon. Marlene M. McCain, CPA  
Hon. Dag Rowe, Attorney at Law  
Hon. Austin Huffaker, Jr., Attorney at Law  
Hon. Reyn Norman (Insurance Commissioner Designee)

### Commission Members Absent:

Hon. Steven Marshall (Attorney General)  
Mr. Jim Ridling (Insurance Commissioner)

### Staff Members Present:

Hon. Joseph Borg, Director  
Hon. Steve Feaga, Deputy Director, Enforcement  
Hon. Edwin Reed, Deputy Director, Administration  
Ms. Christie Rhodes, Executive Assistant

### Public Attendees/Guests:

Ms. Margaret Canary, ASC Intern  
Mr. Finley Reeves, ASC Intern  
Mr. Webb Brown, ASC Intern  
Mr. Gage Pregno, ASC Intern  
Mr. Anil Sadhwani, AG's Office

The meeting was called to order at 10:07 a.m. by Commissioner Hart, Chairman and the Chair noted that there was a quorum present. Chairman Hart asked for a roll call and each present member (as detailed above) was accounted for. Chairman Hart asked for a motion to

approve the current agenda and minutes and a motion was made by Commissioner Hill to approve the meeting agenda, as well as the minutes of the previous meeting held March 14, 2017 which was seconded by Commissioner Rowe. The motion carried unanimously. Chairman Hart invited Director Borg to introduce the ASC interns that attended the meeting. The guests were introduced and welcomed to the proceeding. Chairman Hart then commended Chris Rhodes, Executive Assistant to Director Borg, on her contribution to the Commission meetings, as well as the Commission in general. Chairman Hart and Commissioner Huffaker briefed the Commissioners on their recent trip to the NASAA Spring Conference held in May 2017. It was revealed to the Commissioners that Director Borg was President-Elect of NASAA and would become the President, for the third time, in September of 2017.

Chairman Hart asked Director Borg to begin his report. At that time, Director Borg began discussing the monthly report. Director Borg discussed the Accounting Department, Registration Division, and the Enforcement Division sections of the monthly report. Director Borg continued the report by updating the Commissioners on a possible move to another RSA building in the near future. Discussions are underway for a potential move. Director Borg and Deputy Director Reed then updated the Commissioners on the Commission's Data Systems and discussed the staff review of a paperless environment at the Commission. Director Borg concluded the monthly report with a summary of the activities with regard to Training and Travel of the staff then went on to detail the activities of the Public Affairs and Education Division.

Director Borg and Deputy Director Reed then gave the Commission members an update on the 2017 legislative session. HB215, the Money Transmitter Act, passed and SB169 failed. The Commissioners were briefed on the federal CHOICE Act in the US House of Representatives and the potential effect on Commission functions.

The Commissioners were informed of the ASC's \$1.5 million additional transfer to the General Fund.

It is noted that at 10:53 a.m., Commissioner Mike Hill left the Commission meeting. A quorum was still maintained and the meeting continued without consequence.

The Commission was also informed that Hon. David Byrne will be joining the ASC staff in mid-August in an Attorney III position.

Director Borg asked Deputy Director Feaga if an Executive Session was needed. Deputy Director Feaga stated that there was no subject matter for an Executive Session and therefore no Executive Session was entered into at this meeting.

The final meeting item was a motion to pay expenses for the Commissioners. Motion was made by Commissioner Huffaker and seconded by Commissioner McCain. The motion carried unanimously. Motion to Adjourn was then made by Commissioner McCain and seconded by Commissioner Huffaker and was unanimously carried. The meeting adjourned at 11:00 a.m.

  
\_\_\_\_\_  
JAMES HART  
CHAIRMAN

  
\_\_\_\_\_  
JOSEPH BORG  
DIRECTOR



JOSEPH P. BORG  
Director

EDWIN L. REED      STEPHEN P. FEAGA  
Deputy Director      Deputy Director  
Administration      Enforcement

AMANDA W. SENN  
General Counsel

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Certified Public  
Accountant

S. DAGNAL ROWE  
Attorney at Law

R. AUSTIN HUFFAKER, Jr.  
Attorney at Law

## ALABAMA SECURITIES COMMISSION MEETING March 14, 2017

The Alabama Securities Commission held a meeting on March 14, 2017 at 10:00 a.m. in the main conference room of the Alabama Securities Commission offices, 2nd Floor of the Center for Commerce Building, 401 Adams Avenue, Montgomery, Alabama. Notice of the time and place of this meeting was published with the Secretary of State.

### Commission Members Present:

Hon. James Hart, CPA – Chairman  
Hon. Steven Marshall (Attorney General)  
Hon. Mike Hill (Banking Commissioner)  
Hon. Marlene M. McCain, CPA  
Hon. Dag Rowe, Attorney at Law  
Hon. Austin Huffaker, Jr., Attorney at Law

Hon Reyn Norman (Insurance Commission Designee)

### Commission Members Absent:

Mr. Jim Ridling (Insurance Commissioner)

### Staff Members Present:

Hon. Joseph Borg, Director  
Hon. Steve Feaga, Deputy Director, Enforcement  
Hon. Edwin Reed, Deputy Director, Administration  
Hon. Amanda Senn, General Counsel  
Ms. Christie Rhodes, Executive Assistant

### Public Attendees:

No member of the public attended this meeting.

The meeting was called to order at 10:07 a.m. by Commissioner Hart, Chairman and the Chair noted that there was a quorum present. Chairman Hart asked for a roll call and each present member (as detailed above) was accounted for. Chairman Hart welcomed and



introduced Attorney General Marshall to the Commission and following that, thanked former Attorney General Luther Strange for his six years of service to the Commission with congratulations to General Strange on his new position in Washington, D.C. Chairman Hart asked for a motion to approve the current agenda and a motion was made by Commissioner Hill to approve the meeting agenda which was seconded by Commissioner Marshall. A motion was made by Commissioner Huffaker to approve the minutes of the previous meeting held December 6, 2016 and said motion was seconded by Commissioner Hill. Both motions carried unanimously.

Chairman Hart asked Director Borg to begin his report. At that time, Director Borg began discussing the monthly report. Director Borg discussed the Accounting Department report and informed the Commission that with possible changes in Washington, D.C., it may be necessary to increase the staff side of the Registration Division to keep up with workload. Director Borg continued on with the "Receipts" section of the Accounting Report. Following the Accounting Division report, the Director continued on through the Registration Division and then moved on to the Enforcement Division section report. Director Borg continued the report by updating the Commissioners on the Data Systems Division with a short report on the Commission's wish to upgrade the office to a paperless environment and turned the meeting over to Deputy Director Ed Reed for an update and overview of the ASC's future plans. Director Borg concluded the monthly report with a summary of the activities with regard to Training and Travel of the staff then went on to detail the Public Affairs and Education Division.

Director Borg and Deputy Director Reed then gave the Commission members an update on SB173 being introduced that would repeal the existing Sale of Checks Act and replace it with the Alabama Monetary Transmission Act, as well as SB169 that would sever the Director's salary from the Attorney IV pay range.

Director Borg then advised the Commission that pending litigation and confidential enforcement matters needed to be discussed. Accordingly, Deputy Director Reed (a licensed attorney in Alabama), certified that one of the exceptions of the Open Meetings Act applied, in that pending litigation would be discussed and at that time. Deputy Director Feaga estimated the Executive Session would last approximately thirty (30) minutes. At that time, Commissioner Hill moved to go into Executive Session. Said motion was seconded by Commissioner McCain and the meeting went into Executive Session at 10:57 a.m. after a unanimous vote of all present Commissioners. The following Commissioners voted unanimously to enter Executive Session: Hart, Marshall, Hill, Huffaker, Rowe, and McCain.

At 11:17 p.m., the open meeting was reconvened and the Executive Session ended by motion of Commissioner Marshall and seconded by Commissioner McCain and a unanimous vote by all present Commissioners. The following Commissioners voted unanimously to exit Executive Session: Hart, Marshall, Hill, Huffaker, Rowe, and McCain. Each Commissioner that was present at the beginning of the Executive Session was present when the Executive Session ended.

The final meeting item was a motion to pay expenses for the Commissioners. Motion was made by Commissioner Huffaker and seconded by Commissioner McCain. The motion carried unanimously. Motion to Adjourn was then made by Commissioner Hill and seconded by Commissioner Huffaker and was unanimously carried. The meeting adjourned at 11:20 a.m.

  
JAMES HART  
CHAIRMAN

  
JOSEPH BORG  
DIRECTOR



JOSEPH P. BORG  
Director

EDWIN L. REED  
Deputy Director  
Administration

STEPHEN P. FEAGA  
Deputy Director  
Enforcement

AMANDA W. SENN  
General Counsel

## ALABAMA SECURITIES COMMISSION

401 ADAMS AVENUE, SUITE 280  
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## AGENDA

### COMMISSION MEETING

March 14, 2017

10:00 a.m.

#### COMMISSIONERS

JAMES L. HART  
CHAIRMAN  
Certified Public  
Accountant

STEVEN MARSHALL  
Attorney General

MIKE HILL  
Superintendent of  
Banks

JIM L. RIDLING  
Commissioner of  
Insurance

MARLENE M. McCAIN  
Certified Public  
Accountant

S. DAGNAL ROWE  
Attorney at Law

R. AUSTIN HUFFAKER,  
Jr.  
Attorney at Law

#### I. Call to Order

Welcome to New Commissioner, Steven Marshall, Attorney General  
Congratulations to Austin Huffaker, Fellow of the Alabama Law Foundation  
Approval of Agenda  
Approval of Minutes from Previous Meeting **(Tab A)**

#### II. New Business:

- (a) Monthly Commission Report **(Tab B)**
- (b) Pending Legislation:  
Money Transmitter Bill in House and Senate **(Ex 1)**  
Director's Salary Bill **(Ex 2)**
- (c) General Fund Budget Discussion with Finance Director, *et al.*
- (d) Attorney General Opinion on Agency Fees **(Tab C)**
- (e) Legal Case Update (Executive Session)
- (f) Motion to Pay Appropriate Commissioners' Expenses

#### III. Adjourn



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## ALABAMA SECURITIES COMMISSION MEETING

December 6, 2016

The Alabama Securities Commission held a meeting on December 6, 2016 at 10:00 a.m. in the main conference room of the Alabama Securities Commission offices, 2nd Floor of the Center for Commerce Building, 401 Adams Avenue, Montgomery, Alabama. Notice of the time and place of this meeting was published with the Secretary of State.

### Commission Members Present:

Hon. James Hart, CPA – Chairman  
Hon. Jim Ridling (Insurance Commissioner)  
Hon. Mike Hill (Banking Commissioner)  
Hon. Marlene M. McCain, CPA  
Hon. Dag Rowe, Attorney at Law  
Hon. Austin Huffaker, Jr., Attorney at Law

### Commission Members Absent:

Hon. Luther Strange, Attorney General  
Hon. Alice Martin (Attorney General's Office Designee)

### Staff Members Present:

Hon. Joseph Borg, Director  
Hon. Steve Feaga, Deputy Director, Enforcement  
Hon. Edwin Reed, Deputy Director, Administration  
Hon. Amanda Senn, General Counsel  
Ms. Christie Rhodes, Executive Assistant

### Public Attendees:

No member of the public attended this meeting.

The meeting was called to order at 10:02 a.m. by Commissioner Hart, Chairman and the Chair noted that there was a quorum present. Chairman Hart asked for a roll call and each present member (as detailed above) was accounted for, with the exception of Commissioner Rowe who was running late and would be arriving shortly. Chairman Hart asked for a motion to

approve the current agenda and a motion was made by Commissioner Ridling to approve the meeting agenda which was seconded by Commissioner Hill. A motion was made by Commissioner Ridling to approve the minutes of the previous meeting held September 21, 2016 and said motion was seconded by Commissioner Hill. Both motions carried unanimously.

Chairman Hart asked Director Borg to begin his report. At that time, Director Borg began by updating the Commission on a letter from Senator Phil Williams regarding the Joint Task Force and Public Reform which was sent to several Alabama agencies. Director Borg introduced to the Commission the ASC Expenditure Report sent by the Commission to Senator Williams in answer to the letter received. Director Borg then addressed the monthly report. Director Borg discussed the Accounting Department report, beginning with the new hire in the receptionist position. Following the Accounting Division report, the Director continued on through the Registration Division and then moved on to the Enforcement Division section report. Director Borg concluded the monthly report with a summary of the activities of the Public Affairs Division.

Commissioner Dag Rowe entered the meeting at 10:25 am.

Deputy Director Ed Reed briefed the Commission on his drafting of a Money Transmitter bill. This update included an overview of what the role of the Commission is with regard to money transmitters.

Chairman Hart asked for a brief discussion about the Bill previously introduced to the Legislature last year regarding the increasing of the Director's salary. A motion was made by Commissioner McCain to reintroduce said Bill this year and that motion was seconded by Commissioner Hill. The motion passed unanimously.

The final meeting item was a motion to pay expenses for the Commissioners. Motion was made by Commissioner Ridling and seconded by Commissioner Hill. The motion carried unanimously. Motion to Adjourn was then made by Commissioner Rowe and seconded by Commissioner McCain and was unanimously carried. The meeting adjourned at 10:39 a.m.

  
\_\_\_\_\_  
JAMES HART  
CHAIRMAN

  
\_\_\_\_\_  
JOSEPH BORG  
DIRECTOR





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